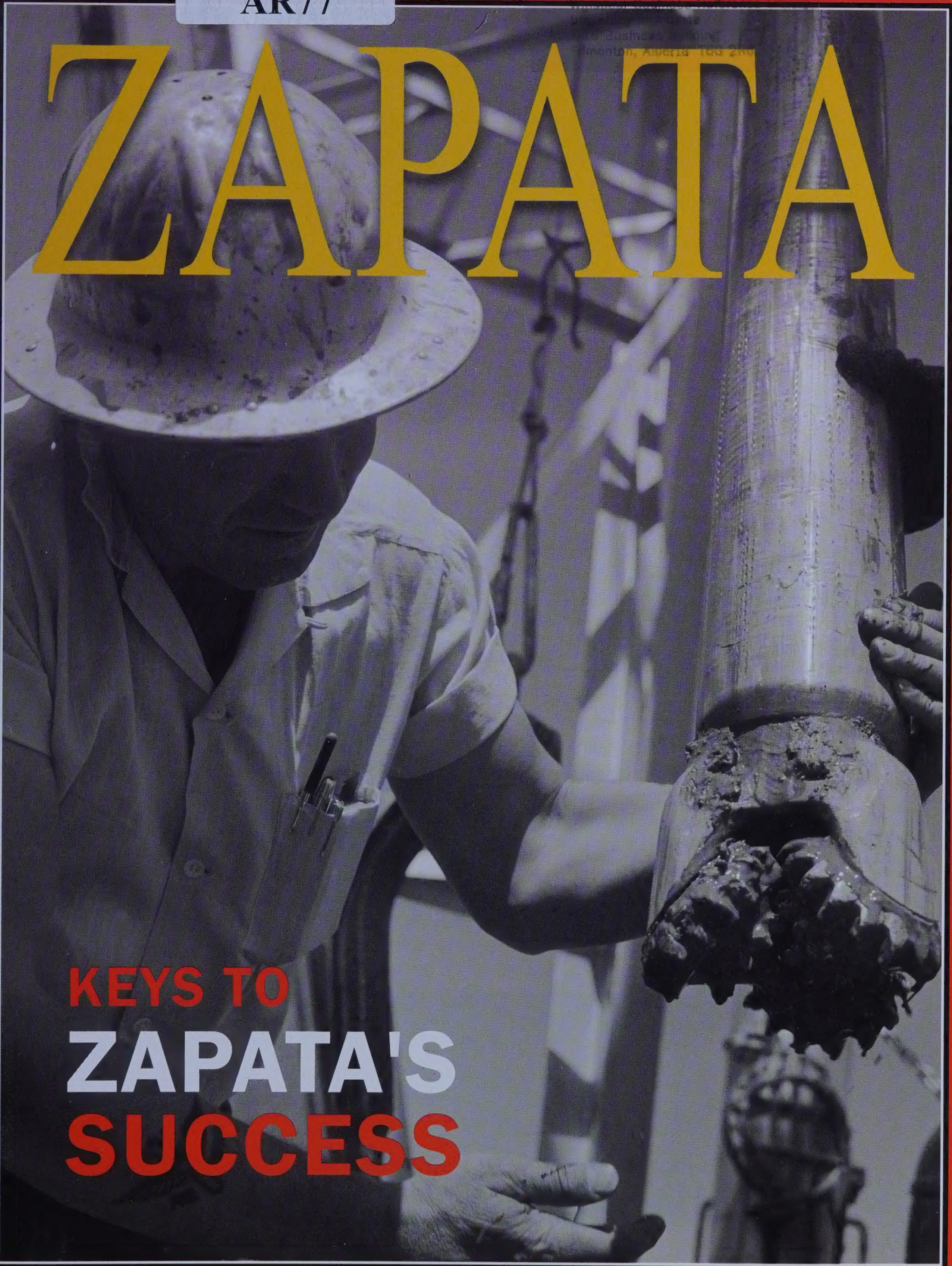
Annual Report 2004

ZAPATA

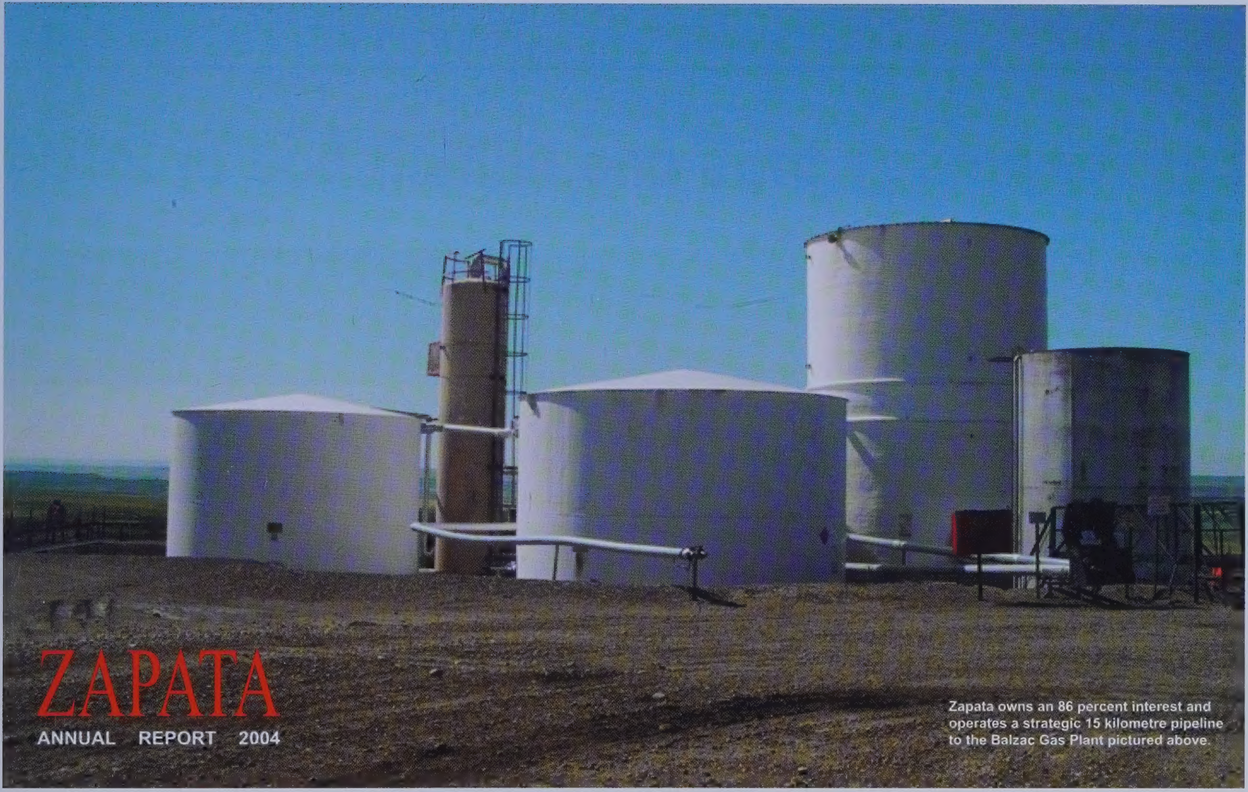


KEYS TO ZAPATA'S SUCCESS

www.zapata.ca TSX-V: ZCO

HIGHLIGHTS

Year ended December 31 ($M except per unit and where noted)	2004	2003	% Change
FINANCIAL			
Gross Revenue	$ 42,577	$ 26,145	62%
Net Revenue (gross sales less royalties)	35,132	21,503	63%
Cash Flow From Operations	18,992	11,067	72%
Per Share (basic)	2.37	1.43	66%
Net Income	7,301	4,647	57%
Per Share (basic)	0.91	0.60	52%
Capital Expenditures	27,957	22,450	25%
Bank Debt	25,600	17,750	44%
Shareholders' Equity	24,115	15,402	57%
Shares Outstanding			
Weighted Average	8,003,047	7,755,756	3%
Weighted Average Diluted	8,414,182	8,089,622	4%
OPERATIONS			
Production Sales			
Natural Gas (mcf/d)	8,757	6,160	42%
Oil (bbls/d)	1,185	794	49%
NGL (bbls/d)	145	128	13%
BOE/D (6:1)	2,790	1,949	43%
Pricing			
Natural Gas ($/mcf)	6.79	6.67	2%
Oil ($/bbl)	44.33	34.95	27%
NGL ($/bbl)	43.69	35.58	23%
BOE ($/BOE)	41.69	36.76	13%
RESERVES (MBOE)			
Proved	7,549.4	6,873.4	10%
Probable	4,159.2	3,864.4	8%
Total Proved Plus Probable	11,712	10,737.8	9%
Drilling Activity (net wells)	28.7	26.7	7%
Undeveloped Land Holdings (net hectares)	32,380	36,899	-12%



Zapata owns an 86 percent interest and operates a strategic 15 kilometre pipeline to the Balzac Gas Plant pictured above.

COMPANY PROFILE

Zapata Energy Corporation is a junior public Canadian resource company with oil and gas production and processing facilities and undeveloped petroleum and natural gas rights in Alberta and British Columbia, Canada. Financially sound and conservatively managed, the Corporation uses a balance of drilling and acquisitions to develop its prospective and diversified portfolio of energy assets taking reasonable risks that provide a high potential for strong, stable cash flow and competitive rates of return.

ANNUAL AND SPECIAL MEETING

Tuesday, June 28, 2005
3:00 p.m.
Strand/Tivoli Room
Metropolitan Conference Centre
333 - 4th Avenue S.W. Calgary, Alberta

REPORT TO SHAREHOLDERS

Zapata President George Paulus outlines keys to successes achieved in 2004 and discusses Zapata's plans for 2005. Committed, knowledgeable personnel, strong Albertan land base and growth through the drill bit are the keys. 2

OPERATIONS REVIEW

Zapata's successful drilling and optimization program in 2004 made it possible for the Corporation to increase its average production to 2,790 barrels of oil equivalent per day and increase its proved reserves by 10 percent. 6

CONTENTS

Zapata Energy Corporation's annual report includes forward-looking statements, including statements about our plans, strategies, expectations, assumptions and prospects. Forward-looking statements are all statements other than statements of historical fact, such as statements regarding drilling potential and results, reserve estimates and depletion rates, trends in commodity prices, and amounts and timing of capital expenditures and abandonment, closure and reclamation costs. Important factors that could cause actual results to differ materially from our expectations include, among others, exploration and development risks, commodity prices, operating hazards and other factors.

Zapata Energy tops one million boe in 2004

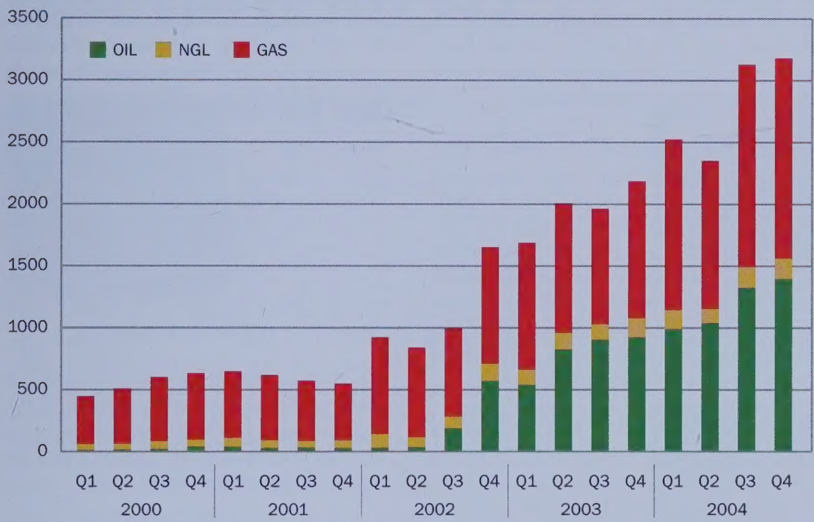
OPERATIONAL & FINANCIAL HIGHLIGHTS ($M except per unit and operational amounts)	Three Months Ended December 31			Year Ended December 31		
	2004	2003	Change	2004	2003	Change
FINANCIAL						
Net sales revenue less royalties	11,158	6,401	74%	35,132	21,503	63%
Cash flow from operations	4,662	3,579	30%	18,992	11,067	72%
Per share (basic)	0.58	0.46	26%	2.37	1.43	66%
Per share (diluted)	0.54	0.45	20%	2.26	1.37	65%
Net income	2,748	933	195%	7,301	4,647	57%
Per share (basic)	0.34	0.12	183%	0.91	0.60	52%
Per share (diluted)	0.32	0.11	191%	0.87	0.57	53%
Capital expenditures	8,470	7,279	16%	27,957	22,450	25%
OPERATIONAL						
Production Sales						
Natural Gas (mcf/d)	9,720	6,650	46%	8,757	6,160	42%
Oil (bbls/d)	1,394	920	51%	1,185	794	49%
NGL (bbls/d)	159	149	8%	145	128	13%
Combined (boe/d @ 6:1)	3,172	2,177	46%	2,790	1,948	43%
Pricing						
Natural Gas ($/mcf)	6.85	6.01	14%	6.79	6.67	2%
Oil ($/bbl)	44.49	33.18	34%	44.33	34.95	27%
NGL ($/bbl)	51.16	34.22	50%	43.69	35.58	23%
Combined ($/boe @ 6:1)	43.09	34.39	25%	41.69	36.76	13%

Zapata Energy Corporation achieved another successful year in 2004. Record production and high prices for oil and natural gas liquids (NGL) contributed to our most profitable year to date. As planned, Zapata focused on improving its operational results, which it achieved by adding production from existing locations, reactivating wells and investing in facilities to reduce long-term operating costs and to improve efficiency of recoveries. In addition, Zapata completed a drilling program in 2004 which will contribute to production this calendar year. For 2005, Zapata's capital budget is set at $25 million. Approximately 75% of this will be expended on drilling and facilities for new wells to increase both reserves and daily production.

Zapata's milestone achievement in 2004 was obtaining annual production sales of over one million boe. Average daily sales volumes in 2004 rose 43 percent to 2,790 boe/d from 1,949 boe/d in the prior year. Final quarter production averaged 3,172 boe/d, an increase of 46 percent over an average of 2,177 boe/d in 2003. We believe our strong asset and infrastructure base will contribute to ongoing growth.

We continued to concentrate on our drilling program in Alberta. A total of 39 (28.7 net) wells were drilled in 2004 resulting in 18 (9.6 net) gas wells, 14 (12.8 net) oil wells and seven (6.3 net) abandonments, for an 82 percent success rate. Broken down, our average daily production sales shows natural gas sales up 42 percent to 8,757 mcf/d from 6,160 mcf/d in 2003; NGL sales up 13 percent to 145 bbls/d from 128 bbls/d in 2003; and oil sales up 49 percent to 1,185 bbls/d from 794 bbls/d in 2003. Natural gas accounted for 52 percent of total sales.

HISTORICAL PRODUCTION BY QUARTER (boe/d)



FINANCIAL

The Corporation continued to show positive financial performance in 2004. Higher production and strong commodity prices pushed gross revenue up 63 percent to $42.6 million from $26.1 million in 2004, while cash flow from operations in 2004 rose 72 percent to $19.0 million or $2.37 per share from $11.1 million in the previous year. Net income after tax was up 57 percent to $7.3 million or $0.91 per share. Zapata continues to maintain a strong balance sheet that will allow for its continued growth. While bank debt increased to $25.6 million at December 31, 2004, it equates to a debt-to-cash flow ratio of 1.3:1 based on 2004 funds from operations and 0.8:1 when based on 2005 projected funds from operations.

Some financial highlights for the year 2004 are provided below.

During 2004, operating income from oil and natural gas sales increased 70 percent to $22.3 million from $13.1 million in 2003. This increase was a result of a 43 percent jump in sales volumes and a 13 percent increase in sales price on a boe basis.

OPERATIONS

Zapata's main focus in 2004 was in Southeast and East Central Alberta. Capital was spent on drilling, facilities and optimization. Activities in these areas contributed to increases in production sales, cash flow and net income.

Production from Southeast Alberta grew 80 percent from 489 boe/d to 882 boe/d primarily as a result of drilling. The Corporation is continuing its drilling program in 2005 to explore for natural gas and to develop two new oil pool discoveries. A 3-D seismic survey is planned to maximize the potential of this development program.

Production in East Central Alberta was up 68 percent to 1,253 boe/d from 748 boe/d as a result of optimization activities, well reactivations and drilling. Two new oil pool discoveries were made during 2004 on which development is planned for this year.

Also in East Central Alberta, a new oil battery was built to assist in development of an existing pool. Power is being brought into facilities at another oil pool to improve production and efficiency. Consolidation of two existing oil batteries in the area is expected to further improve operating efficiencies. Additional lands were acquired on a regional gas prospect in the area while a 3-D seismic program shot in 2004 will locate additional drilling prospects. Two 3-D seismic surveys are planned for the area in 2005.

Zapata plans to drill its first coalbed methane (CBM) well on its 100 percent-owned lands in West Central Alberta in 2005. Also in this area, production from its Viking wells drilled in 2004 is being evaluated prior to commencing offset drilling, while additional seismic is being acquired to identify further exploration projects.

Throughout 2004, Zapata continued to utilize capital to improve operating efficiency at its facilities and ultimately to reduce operating costs. In 2004, we had not yet achieved the full extent of benefits from these reductions, because many of the properties acquired in 2002 required significant work to bring them up to Zapata's standards. With most of this work now completed, we anticipate dramatic improvement in 2005.

Finally, Zapata has applied significant capital to projects that will reduce future environmental costs and clean-ups. In this regard, the Corporation spent capital primarily to replace older pipelines and equipment and clean-up existing well and facility sites.

STRATEGY

The Corporation is generating significant cash flows that will be allocated to develop its large portfolio of drilling prospects and undeveloped lands to grow reserves.

On the exploration side, our strategy is to continue to concentrate on drilling for oil and natural gas in areas that have year-round access and are readily accessible to infrastructure. Zapata has generated internally many prospects and is planning on drilling up to 40 new wells in 2005. We will continue to operate whenever possible to ensure that we maintain as much control of our resources as feasible.

Typically, the major portion of our drilling program occurs in the summer and fall of the year, and 2005 will not be any different. To date this year, the Corporation has drilled 18 (5.03 net) wells resulting in 16 (3.03) gas wells and two (2.0 net) oil wells. Another 23 (20.3 net) wells are planned for the summer and fall of 2005.

A significant portion of the 2005 capital program will be expended on development drilling. 3-D seismic programs will be employed to help identify the drill locations on the new oil pool discoveries made in 2004.

OUTLOOK FOR 2005

We believe that the current strong commodity prices reflect a real demand for oil and natural gas that will continue for the foreseeable future. Demand for oil is increasing throughout the world. The current price of $50 WTI per barrel of oil does not appear to have a significant effect on consumers' disposable income which would dampen the demand. World oil production is peaking and production capacity is limited, and therefore, we expect several years of strong prices compared to previous price cycles. The strong oil market will continue to support a strong price for natural gas. As a result, we are very bullish on drilling and see great value in our land and prospect base.

Zapata has achieved successes that have moved it forward and grown the Corporation. It is no longer a small company, and success brings its own set of challenges. We are continuing to invest in the infrastructure (both physical and personnel) that will ensure that Zapata is well equipped to meet the challenges associated with becoming a great medium-sized company.

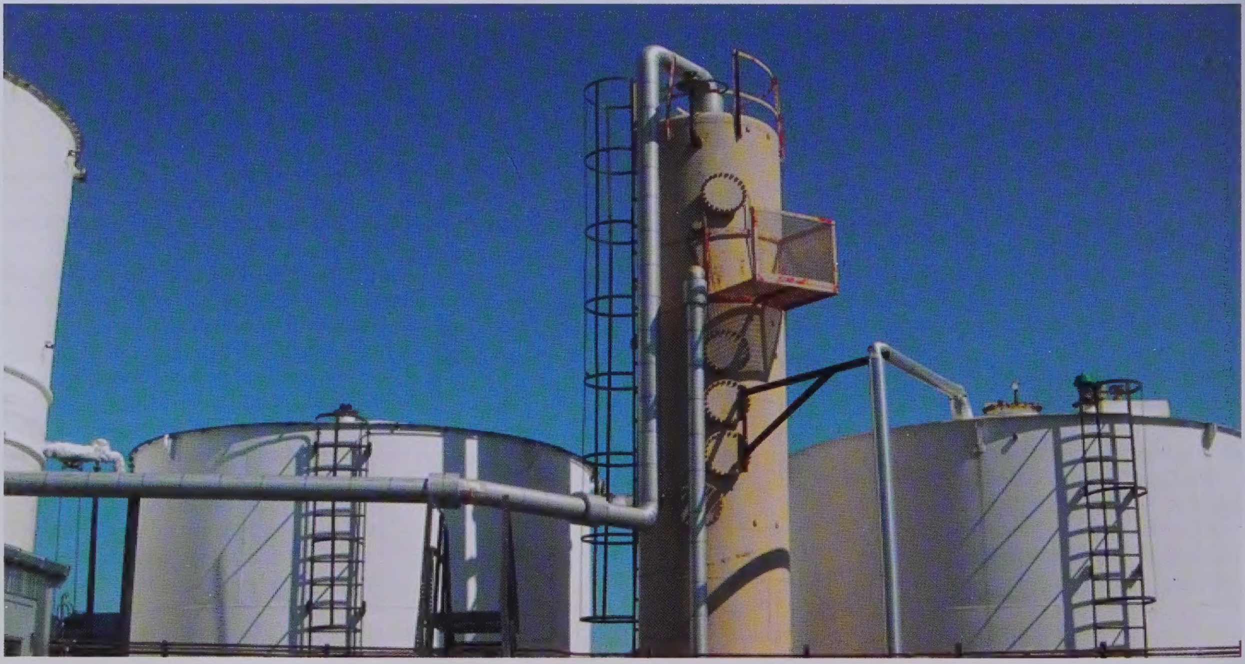
Since December 31, 2003, Zapata's share price has moved from $6.75 to the current price of approximately $14.00. During the first part of 2005, Zapata has been evaluating options to maximize shareholder value. This is a dynamic and ongoing process. The way in which we maximize shareholder value may change with changing opportunities, but the goal remains the same. In the near term, we believe that our additional drilling and development prospects, will increase the realizable value of the Corporation. Our focus continues to be on creating tangible shareholder value, and we measure success on this basis. We will continue to evaluate strategic decisions on this basis and not be unduly influenced by day-to-day movements in share price. We view our shareholders as partners who have entrusted us with their resources with the well-placed confidence that we will do our best to provide the right combination of risk and return. Zapata has an excellent inventory of prospects it intends to exploit this year and will maintain its disciplined approach to business.

We wish to thank our shareholders for their continued support during 2004. We also wish to thank our directors for their guidance and the Zapata team for their dedication and hard work.

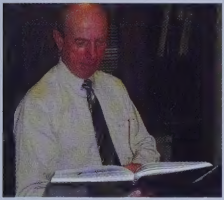
Signed on behalf of the Board of Directors,

George E. Paulus

George E. Paulus
President & Chief Financial Officer

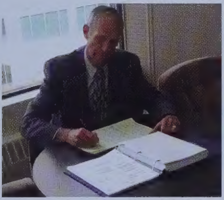


MANAGEMENT & KEY PERSONNEL



GEORGE PAULUS
President, Chief Financial Officer and Director

Mr. Paulus attended the University of Manitoba where he obtained his B. Sc. (Honors) and M. Sc. degree in geology in 1966 and 1968, respectively. From 1977 to the present, Mr. Paulus has been involved extensively in the oil and gas business. In 1992, Mr. Paulus joined Mr. Lloyd Driscoll to found Vintage Resource Corp., a public junior oil and gas company, which was listed on both the Alberta and Toronto Stock Exchanges. Mr. Paulus was a Senior Executive Officer and Chief Financial Officer of Vintage Resource Corp., and assisted in increasing the company's net asset value from $200,000 to $25 million prior to its merger with Danoil Energy Ltd. in 1997. Mr. Paulus is a professional engineer and a professional geologist. He is a member of the Canadian Association of Petroleum Landmen and the Canadian Society of Petroleum Geologists.

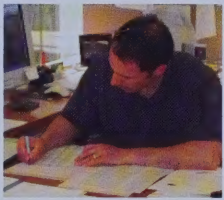


LLOYD DRISCOLL
Chief Executive Officer and Chairman of the Board

Mr. Driscoll commenced his employment in the oil and gas industry in 1952 prior to entering university. In 1958, Mr. Driscoll graduated with a B.Sc. degree in petroleum engineering from the University of Oklahoma. During the period of 1958 through 1974, Mr. Driscoll was employed with Texaco International, Gulf Oil Canada, Total Petroleum and Penzoil United Inc., working in all phases of the oil and gas industry at the senior engineering and management level of the companies located from the United States through Western Canada. From 1974 to 1991, Mr. Driscoll was part of the management team of Coseka Resources Limited. Mr. Driscoll was a founding shareholder, president, C.E.O. and chairman of the board of Vintage Resource Corp., a public junior oil and gas company. Vintage attained daily oil and gas production in excess of 1,000 barrels of oil equivalent per day and cash flow of $4 million per year prior to merging with Danoil Energy Ltd. in 1997.

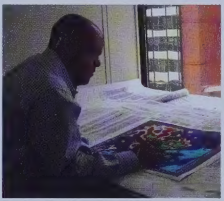
HOWARD BLACKER
Controller

Mr. Blacker began his accounting career in the oil patch in 1980. He obtained his Bachelor of Commerce in 1983 and his Chartered Accountants designation in 1987. Since leaving public practice in 1990, Mr. Blacker has held senior financial positions in a number of energy service and high technology companies.



VANCE BLYDO
Operations Manager

Mr. Blydo holds a petroleum engineering degree from the University of Wyoming. Over the last 10 years, he has been employed in the oil and gas industry in Western Canada and has focused on optimization of operations. Most recently, Mr. Blydo was Operations Manager with Bridgetown Energy Corporation, where he helped increase Bridgetown's net asset value from $3.2 million to $22 million before the company was sold to Olympia Energy Inc.

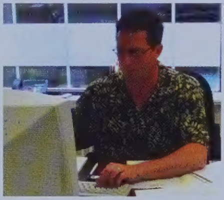


CAM BOLTER
Exploration Manager

Mr. Bolter graduated from the Southern Alberta Institute of Technology in 1996 with a diploma in petroleum engineering technology. Since 1995, he has been involved in oil and gas exploration. Over his nine years in the industry, he has drilled more than 75 successful oil and gas wells in Alberta and British Columbia with recoverable reserves of more than 65 bcf.

RICK KESLER
Field Foreman

Mr. Kesler has more than 20 years of industry experience. He handles all of Zapata's field-related issues.



DARCY SPRATT
Operations

Mr. Spratt has more than 23 years of experience in the oil and gas business. Mr. Spratt's expertise lies in exploitation and optimization of oil and gas properties, reserve assessments and log analysis.

ROBERT BRAWN
Director

Mr. Brawn has more than 42 years of experience in the oil and gas industry. He is also a director of Alberta Treasury Branches, a provincially-owned banking Corporation; Parkland Industries Ltd., a petroleum marketing Corporation; Forzani Group Ltd., a sportswear retailer; the Calgary Airport Authority; and Chairman and Director of Grande Cache Coal Corporation. Mr. Brawn is also Chairman Emeritus of Acclaim Energy Trust.

ALLEN EMES
Director

Mr. Emes is a Chartered Accountant who has held senior officer positions in the oil and gas industry for over 15 years. He has been an Investment Banker for the last 11 years specializing in the oil and gas industry.

KEY TO ZAPATA

Once again, Zapata's strategy has worked. Year-end results show increases in production, reserves and drilling activity.

In 2004, 98 percent of Zapata's production was derived from Alberta. Zapata's three core areas of East Central, Southeast and West Central Alberta provide 92 percent of Zapata's production.

Zapata concentrated on both drilling and optimization in 2004. The Corporation was able to boost its average daily production sales 43 percent from an average of 1,949 boe/d in 2003 to an average of 2,790 boe/d in 2004. Zapata's efforts have allowed the Corporation to replace the proved reserves it produced during 2004 by 1.7 times and its proved plus probable reserves by 1.9 times. Not only did these efforts increase production and reserves, but they are expected to reduce future operating costs. In planning for the Corporation's future, Zapata continued to add to its prospect inventory.

While the Corporation increased average daily sales by 43 percent in 2004 to 2,790 boe/d, sales for the fourth quarter of 2004 averaged 3,172 boe/d up 46 percent from the fourth quarter of 2003. Of the sales during the year, 52 percent was contributed by natural gas and 48 percent by crude oil and natural gas liquids.

Zapata worked throughout 2004 to replace and add to its reserve base through the drill bit and facility optimization. As a direct result of this strategy, Zapata's total proved plus probable reserves rose nine percent to 11.7 mmboe at year end, consisting of 57 percent (41 bcf) natural gas and 43 percent (4.9 mmbbls) crude oil and natural gas liquids. Furthermore, Zapata was able to increase its proved reserves by 10 percent to 7.6 mmboe while achieving another record year of production.

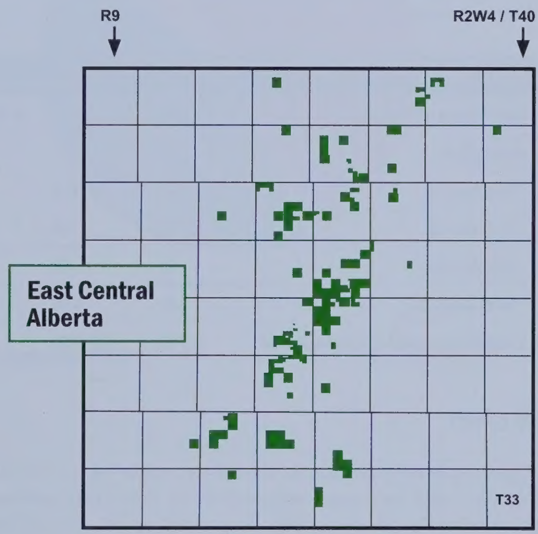
The following summarizes Zapata's focus areas of activity. Production and reserve information are stated prior to royalty deductions.

EAST CENTRAL ALBERTA

Zapata holds 17,814 (15,963 net) hectares of undeveloped land in East Central Alberta. The Corporation has interests in 66 (53.6 net) oil wells and 12 (9.8 net) gas wells producing from the Dina, Lloydminster, Cummings and Viking formations. Zapata continues to add to its land base through Crown acquisitions. Zapata operates seven (6.5 net) batteries in East Central Alberta, of which two are connected to oil pipelines.

Net sales from this predominantly oil producing area in 2004 totaled 1,253 boe/d. This is a prolific oil producing area that hosts several significant oil pools. Many opportunities exist for Zapata to increase production from this area, including development of two new oil pools discovered in 2004. Plans for 2005 involve development of the new oil pool and two 3-D seismic surveys to extend development drilling on two existing pools. In addition, the Corporation will continue its drilling program on its inventory of prospects, including a new regional natural gas resource play.

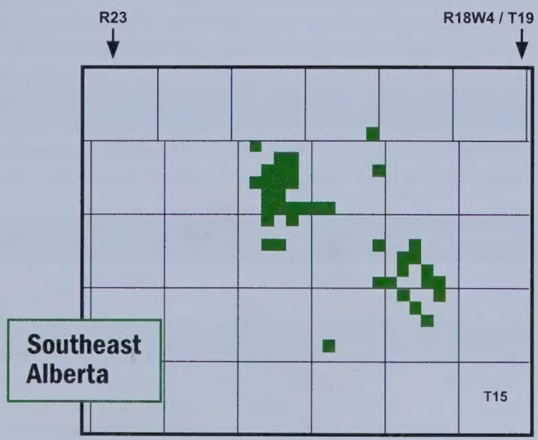
EAST CENTRAL ALBERTA			
Year ended December 31	2004	2003	% Change
Production			
Gas (mcf/d)	1,428	716	99%
Oil (bbls/d)	1,002	629	59%
NGL (bbls/d)	13	-	
Total BOE/D	1,253	748	68%
Undeveloped land (gross hectares)	17,814	14,299	25%



SOUTHEAST ALBERTA

Zapata has working interests ranging from 13 to 100 percent in 6,552 (5,343 net) hectares of undeveloped land in Southeast Alberta. The Corporation has 52 (38.9 net) gas wells in the area producing from the Belly River, Bow Island, Mannville and Mississippian formations. Net sales from the area in 2004 were 4.7 mmcf/d of natural gas and 91 bbls/d of oil and NGL or 882 boe/d, an 80 percent increase over the prior year. Zapata continues to acquire land in the area. Plans for 2005 include a 3-D seismic survey to assist in development drilling of two new oil pool discoveries and evaluation of a new regional oil and gas prospect.

SOUTHEAST ALBERTA			
Year ended December 31	2004	2003	% Change
Production			
Gas (mcf/d)	4,747	2,654	79%
Oil (bbls/d)	41	15	174%
NGL (bbls/d)	50	32	56%
Total BOE/D	882	489	80%
Undeveloped land (gross hectares)	6,552	9,050	-28%



WEST CENTRAL ALBERTA

The Corporation has various working interests in 9,751 (5,631 net) hectares of undeveloped land in West Central Alberta. Zapata has 16 (8.8 net) gas wells and 22 (2.3 net) oil wells in the area producing from the Elkton, Viking and Cardium formations. Net sales from these wells in 2004 were 442 boe/d, 38 percent greater than the 320 boe/d sold in 2003. The Corporation also has an 85 percent operated interest in the Crossfield Elkton Z Unit and related processing facilities. In 2005, the Corporation will be drilling to evaluate a coalbed methane prospect in addition to continued exploitation of deeper prospects.

WEST CENTRAL ALBERTA			
Year ended December 31	**2004**	**2003**	**% Change**
Production			
Gas (mcf/d)	1,622	1,427	14%
Oil (bbls/d)	111	15	641%
NGL (bbls/d)	61	67	-9%
Total BOE/D	442	**320**	38%
Undeveloped land (gross hectares)	9,751	10,005	-3%

LAND

Zapata's land portfolio is currently made up of 86,018 gross (48,761 net) hectares—equivalent to 336 (190 net) sections. Its undeveloped inventory decreased to 51,461 (32,380 net) hectares as a result of its development drilling program in 2004. Zapata's undeveloped land portfolio and prospects in its core areas were critical ingredients in the Corporation's 2004 drilling success. While continuing to drill and develop its land portfolio, Zapata is also adding to its land and prospect base to ensure a continuous, long-term exploitation program. At the same time, Zapata is continuing to maximize its working interests by acquiring interests in its current properties. The Corporation's land holdings are summarized as follows:

UNDEVELOPED LAND (hectares)					
	2004		**2003**		**% Net Change**
	Gross	**Net**	**Gross**	**Net**	
Alberta	40,837	30,717	46,407	35,157	-13%
BC	10,624	1,662	12,104	1,742	-5%
Total	51,461	32,380	58,511	36,899	-12%

GLOSSARY OF TERMS

Development Drilling – Drilling that is expected to increase production from a reservoir that is already known to exist. Drilling development wells is normally a lower-risk activity than drilling exploration wells.

Exploitation – The utilization of tools, chemicals, waterfloods or other technology-driven activities to improve production and recovery factors for reserves.

Exploration Drilling – Seeking out potential reservoirs of oil or natural gas where one isn't already confirmed to exist, often employing technical equipment and implicit knowledge in the process. Drilling of exploration wells is normally more risky than development drilling but has more reward potential.

Formation – An underground layer of the earth made up of particular minerals, rocks and organic matter. Certain formations in certain areas contain oil or natural gas reserves. Formations are named after their location, time period or the dominant rock type.

Production – The oil or natural gas drawn from reserves and being transported to the pipeline system where it will ultimately be refined and used in various forms. Production levels are recorded by metering equipment throughout the gathering system.

Reserves – Estimated quantities of PNG in a reservoir anticipated to be recoverable for economically feasible production. For further definition and a breakdown of proved, probable and possible reserves, refer to page 11.

Seismic – The echoes from small explosions are recorded as sound waves bounce off various underground layers. Specialized equipment interprets the strength and timing of these echoes, creating a picture of how the layers are configured underground. Seismic conducted in one straight line is known as 2D seismic, whereas a grid of seismic data can create a three dimensional image of layers. This is known as 3D seismic.

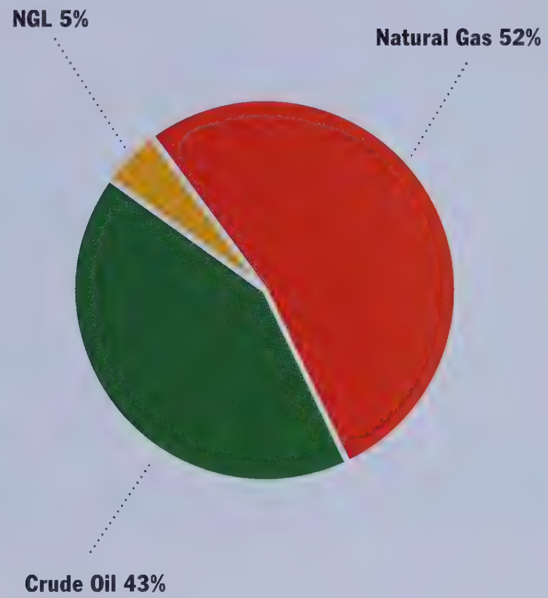
TOTAL LAND (hectares)	2004		2003		% Net Change
	Gross	Net	Gross	Net	
Alberta	72,360	46,922	77,243	52,052	-10%
BC	13,657	1,839	13,727	1,856	-1%
Total	86,018	48,761	90,970	53,908	-10%

DRILLING

During 2004, Zapata increased its reserve base through its drilling program. A total of 39 (28.7 net) wells were drilled, resulting in 18 (9.6 net) gas wells and 14 (12.8 net) oil wells for an 82 percent success rate. Seven (6.3 net) wells were abandoned.

DRILLING SUMMARY	2004		2003	
	Gross	Net	Gross	Net
Completed Gas	18	9.6	16	14.2
Completed Oil	14	12.8	15	9.3
Standing	-	-	3.0	2.3
Abandoned	7	6.3	2.0	1.0
Total Drilled	39	28.7	36.0	26.7

PRODUCTION MIX

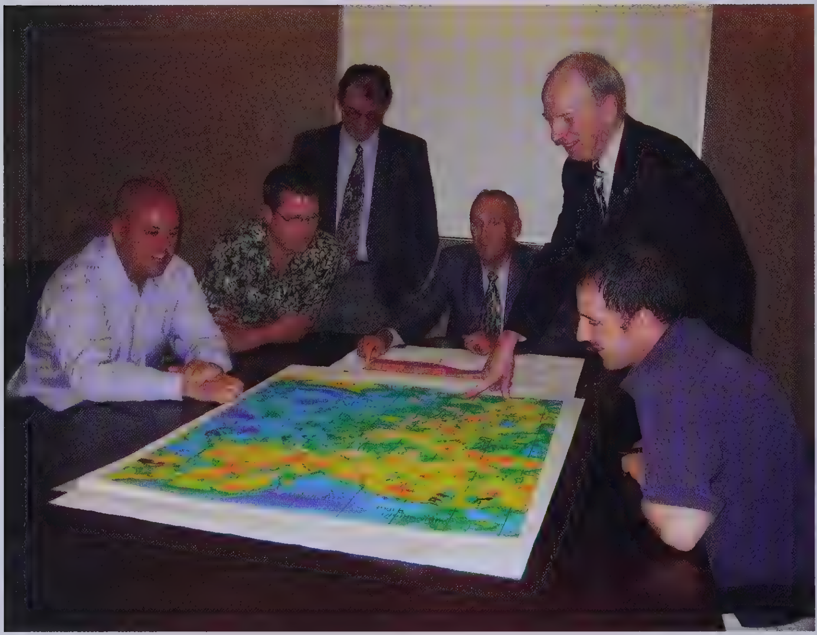


PRODUCTION SUMMARY

Zapata's total production sales in 2004 exceeded one million boe. Average production sales increased 43 percent to 2,790 boe/d compared to 1,949 boe/d in 2003. Fourth quarter production averaged 3,172 boe/d, a 46 percent improvement over 2003. This increase in production reflects both Zapata's drilling success and its expenditures on optimization of wells and facilities.

ANNUAL SALES	Q4-2004	2004	2003	% Change
Crude Oil (bbls)	128,235	433,860	289,665	49%
Natural Gas Liquids (bbls)	14,655	53,130	46,674	13%
Natural Gas (mcf)	894,234	3,205,076	2,248,371	42%
Total Equivalent (boe)	291,929	1,021,169	711,068	43%

AVERAGE DAILY SALES	Q4-2004	2004	2003	% Change
Crude Oil (bbls)	1,394	1,185	794	49%
Natural Gas Liquids (bbls)	159	145	128	13%
Natural Gas (mcf)	9,720	8,757	6,160	42%
Total Equivalent (boe)	3,172	2,790	1,948	43%



ABBREVIATIONS

bbls	Barrels
bbls/d	Barrels per day
mbbls	Thousand barrels
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
NGL	natural gas liquids
bcf	Billion cubic feet
boe	Barrels of oil equivalent (6 mcf:1 bbl)
boe/d	Barrels of oil equivalent per day
mmboe	Million barrels of oil equivalent
PNG	Petroleum & Natural Gas

SALES BY AREA

More than 90 percent of Zapata's total production in 2004 was derived from its three core areas in Alberta. The East Central Alberta core area produced three quarters of the Corporation's oil sales during the year. With its average production sales of 1,253 boe/d in 2004, this area also accounted for 45 percent of the Corporation's total sales during the past year. Gas sales from the Corporation's core areas of Southeast and West Central Alberta accounted for 53 and 13 percent of the Corporation's total gas sales respectively and 48 percent of the Corporation's total sales. The following is a summary of Zapata's average daily sales by area.

SALES BY AREA

	2004				2003			
	Gas	Oil/NGL	**Total**	%	Gas	Oil/NGL	**Total**	%
	mcf/d	bbls/d	**boe/d**	**Sales**	mcf/d	bbls/d	**boe/d**	**Sales**
West Central Alberta	1,622	172	442	16%	1,427	82	320	16%
Southeast Alberta	4,747	91	882	32%	2,654	48	490	25%
East Central Alberta	1,428	1,015	1,253	45%	716	629	748	38%
Minor Properties	960	52	212	8%	1,363	163	390	20%
TOTAL	8,757	1,331	2,790	100%	6,160	922	1,948	100%

RESERVES

Based on an independent engineering evaluation conducted by Sproule Associates Limited as of December 31, 2004 and prepared in accordance with National Instrument 51-101, Zapata's calculated proved plus probable reserves total 11.7 mmboe. Reserve additions of 2.0 mmboe prior to production replaced the 1.0 mmboe produced during 2004.

Proved reserves represent 64 percent of proved plus probable reserves similar to the past year. Approximately 43 percent of Zapata's proved plus probable reserves are crude oil and natural gas liquids with the remaining 57 percent being natural gas on a 6:1 boe conversion basis.

RESERVE EVALUATION

RESERVES - Constant Pricing

	Crude Oil (mbbl)		Natural Gas (mmcf)		NGL (mbbl)		TOTAL (mboe)	
RESERVES CATEGORY	Gross	Net*	Gross	Net*	Gross	Net*	Gross	Net*
PROVED								
Developed Producing	2,190.0	1,919.6	18,938	14,738	342.0	225.8	5,688.3	4,601.7
Developed Non-Producing	270.9	238.4	2,518	2,084	14.7	10.0	705.3	595.7
Undeveloped	392.5	337.8	4,539	3,353	14.1	9.5	1,163.1	906.1
TOTAL PROVED	2,853.4	2,495.8	25,995	20,175	370.9	245.3	7,556.7	6,103.6
PROBABLE	1,504.0	1,319.1	14,786	11,295	196.1	132.5	4,164.4	3,334.1
TOTAL PROVED PLUS PROBABLE	4,357.4	3,814.9	40,781	31,470	567.0	377.8	11,721.1	9,437.7

* Net reserves in this table represent the company's reserves after accounting for royalties.

RESERVES - Forecast Pricing

	Crude Oil (mbbl)		Natural Gas (mmcf)		NGL (mbbl)		TOTAL (mboe)	
RESERVES CATEGORY	Gross	Net*	Gross	Net*	Gross	Net*	Gross	Net*
PROVED								
Developed Producing	2,179.3	1,902.9	18,873	14,675	340.9	226.0	5,665.7	4,574.7
Developed Non-Producing	270.9	239.4	2,518	2,084	14.7	10.1	705.3	597.8
Undeveloped	407.8	350.9	4,539	3,353	14.1	9.5	1,178.4	919.2
TOTAL PROVED	2,858.0	2,493.2	25,930	20,113	369.8	245.6	7,549.4	6,091.8
PROBABLE	1,510.3	1,316.9	14,723	11,232	195.1	132.5	4,159.2	3,321.4
TOTAL PROVED PLUS PROBABLE	4,368.3	3,810.1	40,653	31,345	564.9	378.0	11,708.6	9,413.2

* Net reserves in this table represent the company's reserves after accounting for royalties.

NET PRESENT VALUE

Sproule Associates Limited evaluated Zapata's crude oil, natural gas and NGL reserves according to Canadian Oil and Gas Evaluation Handbook (COGEH) reserve definitions and standards consistent with NI 51-101. In accordance with these standards, net present values as of December 31, 2004 using forecast and constant prices and costs are summarized and presented here. Calculated before taxes with a 10 percent discount, total proved reserves account for three quarters of the proved plus probable value. Sproule's estimated future net production revenues shown below may or may not represent the fair market value of the Corporation's stock.

Based on constant pricing:

NET PRESENT VALUES OF FUTURE NET REVENUES - Constant Prices

	Before Income Taxes Discounted at (%/year) ($M)				
RESERVES CATEGORY	0%	5%	10%	15%	20%
PROVED					
Developed Producing	126,409	106,744	93,210	83,184	75,428
Developed Non-Producing	16,305	12,870	10,659	9,134	8,020
Undeveloped	23,524	18,655	15,363	13,005	11,239
TOTAL PROVED	166,238	138,269	119,232	105,323	94,688
PROBABLE	84,919	58,693	43,994	34,711	28,384
TOTAL PROVED PLUS PROBABLE	251,157	196,962	163,226	140,033	123,072

Based on forecast pricing:

NET PRESENT VALUES OF FUTURE NET REVENUES – Forecast Prices

	Before Income Taxes Discounted at (%/year) ($M)				
RESERVES CATEGORY	0%	5%	10%	15%	20%
PROVED					
Developed Producing	121,923	105,848	94,285	85,478	78,524
Developed Non-Producing	14,581	11,842	10,054	8,798	7,865
Undeveloped	23,045	18,491	15,409	13,193	11,523
TOTAL PROVED	159,549	136,181	119,748	107,469	97,911
PROBABLE	78,112	54,335	41,189	32,911	27,257
TOTAL PROVED PLUS PROBABLE	237,661	190,516	160,936	140,380	125,168

PRICE FORECAST

Year	OIL(1)			NATURAL GAS(1)	PENTANES	BUTANES	INFLATION RATES(2) (%/Year)	EXCHANGE RATE(3) ($US/$Cdn)
	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par Price 40° API ($Cdn/bbl)	Cromer Medium 29.3° API ($Cdn/bbl)	AECO Gas Price ($Cdn/MMBtu)	FOB Field Gate ($Cdn/bbl)	FOB Field Gate ($Cdn/bbl)	FOB Field Gate ($Cdn/bbl)	($Cdn/MB)
Historical								
2001	25.94	39.06	31.56	6.23	42.46	27.93	31.34	14.14
2002	26.09	40.12	35.46	4.04	40.80	25.39	29.87	(2.26)
2003	31.14	43.23	37.53	6.66	44.16	34.55	20.36	12.71
2004	41.41	52.91	45.72	6.87	53.90	41.38	32.87	42.34
Forecast								
2005	44.29	51.25	44.53	6.97	52.49	38.20	28.04	40.00
2006	41.60	48.03	41.87	6.66	49.19	34.01	22.56	30.45
2007	37.09	42.64	37.27	6.21	43.67	30.20	20.58	20.60
2008	33.46	38.31	33.43	5.73	39.23	27.13	20.89	15.69
2009	31.84	36.36	31.70	5.37	37.24	25.75	21.20	15.92
Thereafter				Various escalation rates				

(1) This summary table identifies benchmark reference pricing schedules that might apply to a **reporting issuer.**
(2) Inflation rates for forecasting prices and costs.
(3) Exchange rates used to generate the benchmark reference prices in this table.
Note: Product sale prices will reflect these reference prices with further adjustments for quality and transportation point of sale.

CONSTANT PRICING ASSUMPTIONS

Year	OIL(1)				NATURAL GAS(1)		PENTANES PLUS	PROPANE	BUTANE	EXCHANGE RATE(2)
	Hardisty Bow River ($Cdn/stb)	Edmonton Par ($Cdn/stb)	Hardisty Heavy 12° API ($Cdn/stb)	Cromer Medium 29.3° API ($Cdn/stb)	Alberta AECO-C ($Cdn/Mcf)	BC Westcoast Station 2 ($Cdn/Mcf)	($Cdn/bbl)	($Cdn/bbl)	($Cdn/bbl)	($US/$Cdn)
2004 (Year End)	24.15	46.51	15.26	32.10	6.78	6.68	51.80	36.11	39.78	0.832

(1) This summary table identifies benchmark reference pricing schedules that might apply to a reporting issuer.
(2) The exchange rate used to generate the benchmark reference prices in this table.

RESERVE RECONCILIATION

The following table reconciles the Corporation's net oil and natural gas reserves from December 31, 2003 to December 31, 2004, before deduction of royalties using constant prices and costs.

	Crude Oil (mbbl)			NGL (mbbl)			Associated & Non-Associated Gas (mmcf)			Total (mboe)		
	Proved	Probable	Proved Plus Probable	Proved	Probable	Proved Plus Probable	Proved	Probable	Proved Plus Probable	Proved	Probable	Proved Plus Probable
December 31, 2003	2,015.9	766.5	2,782.4	478.1	349.7	827.8	26,307	16,575	42,882	6,878.5	3,878.7	10,757.2
Improved Recovery	316.4	53.3	369.7	35.0	-	35.0	958	283	1,241	511.1	100.5	611.5
Technical Revisions	22.1	(39.2)	(17.1)	(61.8)	(146.2)	(208.0)	(2,697)	(2,991)	(5,688)	(489.2)	(683.9)	(1,173.1)
Discoveries	920.5	724.5	1,645.0	6.9	5.7	12.6	4,387	1,392	5,779	1,658.6	962.2	2,620.8
Acquisitions	20.0	5.0	25.0	(35.0)	(12.5)	(47.5)	173	(548)	(375)	13.8	(98.8)	(85.0)
Production	(433.1)	-	(433.1)	(52.9)	-	(52.9)	(3,205)	-	(3,205)	(1,020.2)	-	(1,020.2)
December 31, 2004	2,861.8	1,510.1	4,371.9	370.3	196.7	567.0	25,923	14,711	40,634	7,552.6	4,158.6	11,711.2

Note: The numbers above may not match Sproule's evaluation nor add exactly due to estimating and rounding.

RESERVE LIFE INDEX

The Corporation's reserve life index using fourth quarter 2004 exit production is 6.5 years for proved reserves and 10.1 years for proved plus probable reserves. The lower life index for reserves is a result of the additional production brought on stream during the year.

RESERVE LIFE INDEX	2004	2003
Crude Oil & NGL		
Production (mbbls)	567	433
Proved reserves (mbbls)	3,232	2,489
Proved reserve life index (years)	5.7	5.8
Proved plus probable reserves (mbbls)	4,939	3,592
Proved plus probable reserve life index (years)	8.7	8.3
Natural Gas		
Production (mmcf)	3,548	3,206
Proved reserves (mmcf)	25,923	26,306
Proved reserve life index (years)	7.3	8.2
Proved plus probable reserves (mmcf)	40,634	42,877
Proved plus probable reserve life index (years)	11.5	13.4
MBOE		
Production (mboe)	1,158	967.1
Proved reserves (mboe)	7,553	687.3
Proved reserve life index (years)	6.5	7.1
Proved plus probable reserves (mboe)	11,711	10,738
Proved plus probable reserve life index (years)	10.1	11.1

RESERVE REPLACEMENT

In 2004, the Corporation replaced production by a factor of 1.7 times on a proved basis and 1.9 times on a proved plus probable basis.

RESERVE REPLACEMENT	2004
Production (mboe)	1,021
Proved reserve additions (mboe)	1,694
Proved replacement ratio	1.7
Proved plus probable additions (mboe)	1,974
Proved plus probable replacement ratio	1.9

RECYCLE RATIO

The recycle ratio measures the efficiency of the Corporation's reinvestment capital program by comparing the operating netback of oil equivalent to the year's finding and development costs.

RECYCLE RATIO	2004
Operating netback ($/boe)	21.84
Proved finding and development cost including FDC ($/boe)	17.19
Proved investment efficiency ratio	1.25
Proved plus probable finding and development cost including FDC ($/boe)	17.20
Proved plus probable investment efficiency ratio	1.25

Note: FDC means "Future Development Costs"

FINDING AND DEVELOPMENT COSTS

During 2004, the Corporation added a total of 1.7 million boe of proved reserves at a finding and development cost of $16.15 per boe. On a proved plus probable reserve basis, 2.0 million boe were added at a cost of $13.86 per boe. The increase in finding costs is attributed to higher costs to drill and technical reserve revisions. A summary of finding and development costs for proved plus probable reserves follows:

FINDING & DEVELOPMENT COSTS - Proved Plus Probable				
($M unless noted otherwise)	2004	2003	2002	3-Year Total
Net Capital Expenditures	27,357	16,769	18,180	62,486
Change in Future Development Costs (FDC)	6,595	(2,039)	4,732	9,288
Net Capital Expenditures Adjusted for Future Development Costs	33,952	14,730	22,912	71,774
Net change in Proved Plus Probable Reserves (mboe)	954	4,172	3,529	8,655
Annual Production (mboe)	1,020	711	400	2,131
Annual Reserve Additions (mboe)	1,974	4,883	3,929	10,786
Annual Finding & Development Costs Excluding FDC ($/boe)	13.86	3.43	4.63	5.79
Annual Finding & Development Costs Including FDC ($/boe)	17.20	3.02	5.83	6.65

Note: FDC means "Future Development Costs"

FINDING & DEVELOPMENT COSTS - Proved

($M unless noted otherwise)	2004	2003	2002	3-Year Total
Net Capital Expenditures	27,357	16,769	18,180	62,486
Change in Future Development Costs (FDC)	1,763	3,336	3,272	8,371
Net Capital Expenditures Adjusted for Future Development Costs	29,120	20,105	21,452	70,857
Net change in Proved Reserves (mboe)	674	1,254	3,263	5,191
Annual Production (mboe)	1,020	711	400	2,131
Annual Reserve Additions (mboe)	1,694	1,965	3,663	7,332
Annual Finding & Development Costs Excluding FDC ($/boe)	16.15	8.53	4.96	8.53
Annual Finding & Development Costs Including FDC ($/boe)	17.19	10.23	5.86	9.68

Note: FDC means "Future Development Costs"

Zapata's team is key to its success. From top to bottom, Zapata's team consists of a great mix of committed and knowledgeable individuals - combined to form the well-oiled machine that is Zapata. The team put together Zapata's solid land base and drilling programs that underpin Zapata's continuing growth and success. From drill bit to production sales, the people turn the key that drives success.

Howard Blacker–Cam Bolter–Vance Blyde–Bob Brown–Lloyd Driscoll–Al Enns–Rick Kesler–Renee Kohler–Laurie McLeod–Ben Pawlus–George Pawlus–Lori Pawlus–Brent Peterson–Connie Randall–Joanne Schwass–Avelaine Scyrup–Darcy Spratt–Brock Thompson–Joanna Thomsen–Bob Venables

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with Zapata Energy Corporation's audited financial statements for the years ended December 31, 2003 and 2004 together with the accompanying notes. Certain information regarding Zapata contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements. Forward-looking statements are based on the estimates and opinions of Zapata's management at the time the statements were made. Zapata assumes no obligation to update forward-looking statements should circumstances or management's estimates change.

BASIS OF PRESENTATION

The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Application of Accounting Estimates

The significant accounting policies used by Zapata are disclosed in note 3 to the financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates.

Non-GAAP Measures

The terms "cash flow" and "cash outflow," which are expressed before changes in non-cash working capital, are used by the Corporation to analyze operating performance, leverage and liquidity. These terms do not have any standardized meaning prescribed by GAAP and therefore might not be comparable with the calculation of a similar measure for other companies. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the audited consolidated financial statements. The Corporation also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares consistent with the calculation of earnings per share. The market value capitalization presented in this MD&A under the title "Capitalization" is a non-GAAP measurement that may not be comparable to similar measures used by other companies. The calculation of this measure is detailed in the capitalization section.

BOE Presentation

The term "barrels of oil equivalent" (boe) may be misleading, particularly if used in isolation. A boe conversion of six thousand cubic feet of natural gas to one barrel of oil (6:1) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers should be aware that historical results are not necessarily indicative of future performance.

Change in Accounting Policy

Certain comparative information has been restated to reflect changes in accounting policy. All of these changes resulted from adopting new accounting standards. These changes are explained in note 2 to the audited financial statements.

OPERATIONS

In 2004, Zapata Energy Corporation increased its production and sales of natural gas, oil and natural gas liquids (NGL). Well production volumes brought on-stream in late 2003 and mid-2004 accounted for the 43 percent increase in average daily production to 2,790 boe/d during 2004 from 1,949 boe/d in 2003.

Production Mix

Successful drilling in Alberta in 2004 resulted in a 42 percent increase in average daily natural gas sales to 8,757 mcf/d from 6,160 mcf/d in 2003 and a 13 percent increase in overall NGL sales to 145 bbls/d from 128 bbls/d in 2003. Oil sales increased 49 percent to 1,185 bbls/d from 794 bbls/d in 2003 resulting from new discoveries and optimizations.

On a volume basis, natural gas accounted for 52 percent of total sales in 2003 and 2004, and oil and NGL accounted for the balance.

	Total Volumes For The Year			Average Daily Volume		
Production Sales	2004	2003	Change	2004	2003	Change
Natural Gas (mcf)	3,205,076	2,248,371	42%	8,757	6,160	42%
Oil (bbls)	433,860	289,665	49%	1,185	794	49%
NGL (bbls)	53,130	46,674	13%	145	128	13%
Barrels of Oil Equivalent (boe)	1,021,169	711,068	43%	2,790	1,949	43%

FINANCIAL RESULTS

Operating income from oil and natural gas sales increased 70 percent to $22.3 million in 2004 from $13.1 million in 2003. This increase was a result of a 43 percent jump in sales volumes and a 13 percent increase in sales price on a boe basis.

OPERATING INCOME			
Year ended December 31	2004	2003*	Change
($M except per boe)			
Petroleum and natural gas revenue	42,577	26,145	63%
Royalties	7,445	4,642	60%
Production Expenses	11,272	7,300	54%
Transportation	1,561	1,061	47%
Operating Income	22,299	13,142	70%
Revenue per boe	41.69	36.77	13%
Royalty per boe	7.29	6.53	12%
Operating costs per boe	11.03	10.27	7%
Transportation costs per boe	1.53	1.49	3%
Netback per boe	21.84	18.48	18%

*Restated

Gross petroleum and natural gas revenue increased 63 percent to $42.6 million during 2004 from $26.1 million in 2003 due to higher sales volumes and prices for oil and natural gas liquids. Natural gas accounted for 52 percent of total revenues in 2004 compared with 56 percent in 2003. Oil contributed to 43 percent of Zapata's revenue in 2004 (2003—38 percent) because of escalated oil prices and a 49 percent increase in sales volumes.

Stronger oil and NGL prices increased revenue per boe by 13 percent to $41.69 in 2004 from $36.76 per boe in the prior year. The average oil sales price in 2004 was $44.53 (excluding hedging loss) per barrel, 27 percent greater than the $34.95 per barrel received in 2003. The average NGL sales price in 2004 rose 23 percent to $43.69 per barrel from $35.58 per barrel in 2003. Natural gas prices moved up slightly to $6.79 per mcf in 2004 from the $6.67 per mcf received in 2003.

Year ended December 31	2004	2003*	Change
Royalties per unit of production			
Gas ($/mcf)	1.29	1.58	(14%)
Oil ($/bbl)	6.13	5.50	11%
NGL ($/bbl)	12.39	10.09	23%
Total ($/boe)	7.29	6.53	12%
Operating costs per unit of production			
Gas ($/mcf)	1.51	1.15	31%
Oil ($/bbl)	14.81	10.11	46%
Total ($/boe)	11.04	10.27	7%
Transportation costs per unit of production			
Gas ($/mcf)	0.19	0.22	(14)%
Oil ($/bbl)	2.04	1.46	40%
NGL ($/bbl)	1.34	1.10	19%
Total ($/boe)	1.53	1.37	12%

*Restated

Increased overall royalties reflect the year's higher production volumes, though a high gas cost allowance resulted in declined gas royalties. Operating costs were up marginally because of the significant amount of workovers and optimizations completed during the year for oil production. Management anticipates a resultant reduction in operating costs in 2005 and subsequent years as a consequence of these efforts. Transportation costs were up marginally on a boe basis as a result of increased trucking costs for oil and NGL volumes. In compliance with new CICA regulations, transportation costs are reported separate from revenue (see note 2 to the audited financial statements).

GENERAL & ADMINISTRATIVE EXPENSES

Mirroring the Corporation's growth and its increased revenues, cash flow, income and production, gross general and administrative (G&A) expenses increased 67 percent to $2.4 million from $1.4 million. Operator's overhead recovery was $335,510, up 41 percent from $239,259 in 2003, while capitalized overhead was reduced by 58 percent to $35,389 from $82,471 in 2003. Net G&A expenses increased 82 percent to $2 million in 2004 from the previous year's $1.1 million. On a barrel of oil equivalent basis, gross G&A expenses rose 16 percent to $2.36 per boe from $2.03 per boe, while net G&A expenses were 27 percent higher at $2.00 per boe compared with $1.58 per boe. G&A expenses were higher in 2004 largely as a result of the Corporation's shareholder value maximization process.

GENERAL & ADMINISTRATIVE EXPENSES			
Year ended December 31	2004	2003	% Change
($M except per boe)			
Gross G&A Expenses	2,411	1,442	67%
Operated Overhead Recovery	336	239	41%
Capitalized Overhead	35	82	(58%)
Net G&A Expenses	2,040	1,120	82%
Gross average costs per boe	2.36	2.03	16%
Net average costs per boe	2.00	1.58	27%

INTEREST COSTS

Bank debt increased to $25.6 million during 2004 from $17.8 million in 2003 as a result of the Corporation's aggressive drilling program in late 2004. Interest charges increased 46 percent to $955,752 in 2004 from $656,477 in 2003. On a barrel of oil equivalent basis, interest costs increased two percent to $0.94 from $0.92 per boe in 2003.

INTEREST EXPENSE			
Year ended December 31	2004	2003	Change
($M except per BOE)			
Interest	956	656	46%
Interest Cost Per BOE	0.94	0.92	2%

STOCK-BASED COMPENSATION

The 2004 and 2003 financial statements include stock-based compensation expense for all stock options granted after December 31, 2002 and for stock options granted prior to January 1, 2003 to consultants. In 2004, Zapata recorded stock-based compensation expense of $797,403 up from $404,633 in 2003. Most of the 2004 increase occurred in the first quarter, when additional stock options were granted.

DEPLETION, DEPRECIATION & ACCRETION EXPENSES

Depletion and depreciation expense, an accounting measure of our finding and on-stream costs, is calculated using the ratio of capital costs to proved reserves. Depletion and depreciation of oil and gas properties is calculated using the unit-of-production method based on proved reserves estimated at the end of the period. Capital costs include the net book value of historical costs incurred and estimated future expenditures to develop proved reserves less the estimated net realizable value of production equipment and facilities after proved reserves are fully developed.

Asset retirement obligation is the present value of management's estimate of future costs to be incurred to properly abandon and reclaim the properties held by the Corporation. Accretion expense is the increase in the asset retirement obligation resulting from the passage of time and is computed by applying a credit adjusted risk-free rate to the beginning of the period obligation balance.

Depletion, depreciation and accretion (DD&A) expenses rose 50 percent to $7.8 million in 2004 from $5.2 million in 2003 as a result of higher production and capital expenditures incurred during the year on the Corporation's properties. On a barrel of oil equivalent basis, DD&A expenses were up only four percent to $7.65 per boe from $7.34 per boe in 2003.

DEPLETION, DEPRECIATION & ACCRETION			
Year ended December 31	2004	2003	Change
($M except per boe)			
Depletion, depreciation and accretion	7,815	5,225	50%
Average costs per BOE	7.65	7.34	4%
Asset retirement obligation	3,743	2,426	54%

INCOME TAXES

Zapata's current income tax expense for 2004 was down 20 percent to $316,821 compared with $396,462 in 2003. The future tax provision for 2004 nearly tripled to $3.1 million from $790,516 in 2003. Tax pools for income tax purposes totaled $46.4 million at December 31, 2004 compared with $27.3 million in 2003.

Future tax expense increased substantially largely because of tax deferral resulting from transferring the Corporation's producing properties into Zapata Limited Partnership effective September 1, 2004. The current tax expense relates to assessments received from Canada Revenue Agency related to 2001 and 2002.

CASH FLOW FROM OPERATIONS & NET INCOME

Cash flow from operations in 2004 increased 72 percent to $19 million from the previous year's $11.1 million, while net income after tax rose 57 percent to $7.3 million from $4.6 million in 2003. The Corporation's larger production base combined with higher sales prices for oil and NGL triggered cash flow and net income increases.

On a barrel of oil equivalent basis, cash flow was up 20 percent to $18.60 per boe from $15.56 as a result of strong commodity prices. Similarly, net income after tax rose nine percent to $7.15 per boe from $6.54 in 2003.

CASH FLOW FROM OPERATIONS			
Year ended December 31	2004	2003*	Change
($M except per unit values)			
Cash Flow	18,992	11,067	72%
Per Share (basic)	2.36	1.43	65%
Average Per boe	18.60	15.56	20%
Net Income After Tax	7,301	4,647	57%
Per Share (basic)	0.91	0.60	52%
Average Per boe	7.15	6.54	9%

*Restated

CAPITAL EXPENDITURES

During 2004, capital expenditures rose 25 percent to $28 million from $22.5 million in 2003. Net capital expenditures were financed from the Corporation's cash flow and bank debt. In 2004, Zapata spent almost the same amount on facilities as it did on drilling reflecting Zapata's goal of increasing its reserves and production through optimizing existing wells and facilities. The Corporation continued expenditures for land, geology and seismic to preserve and maintain its prospect inventory. Facilities spending, expected to result in improved production and reduced operating costs, accounted for 44 percent of total capital expenditures in 2004 (2003—26 percent). Although these expenditures added reserves, the effect on total reserves was not significant. However, these short-term expenditures will produce a long-term reduction in operating costs.

Zapata's proposed capital budget for 2005 is $25 million, which will be financed from cash flow and debt. The Corporation has the flexibility to adjust its capital programs if cash flow turns out to be higher or lower than anticipated.

CAPITAL EXPENDITURES			
Year ended December 31	2004	2003	Change
($M)			
Drilling and Completions	12,928	9,777	32%
Production Facilities	12,361	5,825	112%
Land and Rentals	1,115	1,146	(3%)
Seismic and Geological	919	484	90%
Office Equipment	34	12	183%
Total Direct Expenditures	27,357	17,244	59%
Purchase of Oil & Gas Properties	565	5,124	(89%)
Capitalized G&A	35	82	(57%)
Total Net Capital Expenditures	27,957	22,450	25%

LIQUIDITY & CAPITAL RESOURCES

Management expects credit facilities and forecasted capital resources to be sufficient to support Zapata's capital expenditure programs and future growth prospects. At December 31, 2004, the Corporation had a working capital deficit of $6.2 million (2003—$6.2 million) excluding bank debt of $25.6 million (2003—$17.8 million). The Corporation's net $32 million (2003—$24 million) working capital deficiency at the end of 2004 represents approximately 1.7 (2003—2.2) times operating cash flow. The Corporation's revolving operating demand loan is $30 million, of which $25.6 million was drawn down at year end. Subject to certain conditions, an additional $10 million non-revolving loan can be made available for acquisitions and development. Zapata has the ability to increase its loan but chooses to work within the current line of credit until an opportunity arises in which the line can be utilized to add substantial value to the Corporation.

CAPITALIZATION

The Corporation's capitalization based on book value shifted marginally to equity as a result of Zapata's strong cash flow from operations in 2004,

BASED ON BOOK VALUE				
	2004		2003*	
Year ended December 31	$M	%	$M	%
Bank debt and working capital deficit	31,778	46%	23,938	49%
Future tax and asset retirement obligation	13,530	19%	9,135	19%
Common share equity	24,116	35%	15,402	32%
Total	69,424	100%	48,475	100%

*Restated

Based on market value, the shift from debt to equity was more substantial.

BASED ON MARKET VALUE				
	2004		2003*	
Year ended December 31	$M	%	$M	%
Bank debt and working capital deficit	31,778	19%	23,938	28%
Future tax and asset retirement obligation	13,530	8%	9,135	11%
Common share equity	120,046	73%	52,353	61%
Total	165,354	100%	85,426	100%

*Restated

Note: Closing share price on December 31, 2004 was $15.00 ($6.75 - 2003). Shareholders' equity is based on market value of outstanding shares at year end.

OUTSTANDING SHARE DATA

As at December 31, 2004, Zapata had the following securities outstanding: 8,037,922 common shares (2003—7,755,756) and 625,000 stock options (2003—773,500). Subsequent to the December 31, 2004 year-end financial statements, 35,000 stock options have been exercised. There have been no other changes.

NET ASSET VALUE

Management has prepared an estimate of the Corporation's net asset value as of December 31, 2004 using constant pricing as follows:

NET ASSET VALUE (Discounted at 10%)

Based on Sproule Pricing	December 31, 2004 Constant	December 31, 2003 Constant	% Change
($M except per unit values)			
Reserves Before Tax	163,226	171,958	(5%)
Undeveloped Land & Seismic	15,456	9,355	65%
Working Capital (Deficit)	(6,178)	(6,188)	-
Bank Debt	(25,600)	(17,750)	44%
Net Asset Value	146,904	157,375	(7%)
NAV Per Share ($/share)	18.27	20.29	(10%)
Proceeds of Stock Options	2,637	2,120	24%
Net Asset Value (Diluted)	149,541	159,495	(6%)
NAV per share (Diluted) ($/share)	17.77	19.07	(7%)

Zapata's facilities spending in 2004 directly correlates to the value reduction calculated using this approach. As discussed above (see Capital Expenditures), $12.4 million ($5.8 million—2003) was spent on workovers and optimizations to improve Zapata's production without adding significantly to reserve values. These costs also contributed to Zapata's higher debt figures. It is also important to note that the constant pricing used to evaluate the Corporation's reserves at December 31, 2004 were lower than the months immediately preceding and the months following the evaluation.

In 2005, Zapata will focus on drilling which should increase reserves. Accordingly, compared to the prior year, drilling and completion costs will form a greater portion of its capital expenditures relative to facility spending.

Additional information regarding Zapata's oil and gas reserves is available in the Corporation's NI 51-101 disclosure viewable at www.sedar.com.

OFF-BALANCE SHEET ARRANGEMENTS

Zapata is not party to any arrangements that would be excluded from the balance sheet.

RELATED PARTIES

During the first half of 2004, management fees of $108,333 (2003 - $300,000 for the year) were paid to companies controlled by officers and directors of the Corporation. Subsequent to May, the affected individuals became employees, and no further such payments are anticipated.

BUSINESS RISKS

The oil and gas industry is subject to risks in (among others):

- finding and developing reserves,
- commodity prices received for such reserves,
- availability of equipment, manpower and supplies,
- availability and cost of capital to achieve projected growth,
- effect of weather on drilling and production, and
- operating in an environmentally appropriate fashion.

Zapata mitigates these business risks by:

- Having assets in several diverse fields.
- Maintaining cost-effective operations.
- Maintaining a balance between oil and gas properties.
- Operating our own properties to control the amount and timing of capital expenditures.
- Using new technology to maximize production and recoveries and reduce operating costs.
- Restricting operations to western, central and southern Alberta where locations are accessible, operating and capital costs are reasonable and onstream times are shorter.
- Drilling wells in areas with multiple high deliverability zone potential.

FINANCIAL INSTRUMENTS

From time-to-time, the Corporation enters into gas sales contracts in the form of forward financial transactions providing the Corporation with a fixed price on gas sales. Net oil and gas sales for the year ended December 31, 2004 include losses of $816,896 (2003—gains of $11,804). At December 31, 2004, the Corporation had no outstanding hedge transactions or forward financial contracts.

The Corporation enters into these instruments to protect a portion of its production from possible reduction in price. The risk taken is that prices may rise substantially and Zapata will be limited by its financial instrument. Zapata manages this risk by limiting its use of such instruments to no more than 20 percent of its production.

Subsequent to year end, Zapata has entered into contracts to deliver 2,000 GJ/day of gas from May 1 to November 1, 2005 at fixed prices ranging from $7.225 GJ to $7.85 GJ. Zapata has also entered into a contract to sell 200 barrels of oil per day from May 1, 2005 to July 31, 2005 with a floor price of $53.00 US and a ceiling price of $61.00 US. If West Texas Intermediate (WTI) pricing is less than $47.50, Zapata will receive WTI plus $5.50.

OUTLOOK

Zapata anticipates that with continuing strong commodity prices and controlled operating costs it will be able to complete its 2005 capital program and reduce debt per boe.

The Corporation's forecast for 2005 includes a capital spending program of $25 million, a reduction in bank debt to $17 million and net income of $8 million.

SELECTED ANNUAL INFORMATION

SELECTED ANNUAL INFORMATION			
	2004	2003*	2002**
($M except per unit values)			
Petroleum and Natural Gas Sales	42,577	26,145	11,097
Net Income	7,301	4,647	837
Net Income Per Share			
Basic	0.91	0.60	0.12
Diluted	0.87	0.57	0.11
Total Assets	77,419	53,482	33,379
Bank Debt	25,600	17,750	11,000
Total Long-Term Liabilities	13,530	9,135	6,625

* Restated as per note 2 to the financial statements

** Restated as per the discussion in note 2 to the financial statements. Petroleum and Natural Gas sales have been increased by $2.4 million for royalties and $415,000 for transportation. Oil and gas sales were previously reported net of these amounts. This adjustment has no effect on net income. Net income was reduced by $106,000. $82,000 of this related to stock based compensation and $24,000 related to the asset retirement obligation. Total assets and long term liabilities were increased by $733,000 and $757,000 respectively related to the asset retirement obligation.

Discussion Of Variance

The consistent annual growth in all categories highlighted above is the product of Zapata's growth through the drill bit and through acquisition. This growth has been financed by cash flow and bank debt. Bank debt has remained consistent at about one third of total assets.

QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly information that has been derived from the unaudited consolidated financial statements of Zapata Energy Corporation. This summary should be read in conjunction with unaudited financial statements of Zapata as contained in the public record.

QUARTERLY FINANCIAL INFORMATION (000s except per share and per unit values)	Dec. 31, 2004	Sept. 30, 2004	Jun. 30, 2004	Mar. 31, 2004	Dec. 31, 2003	Sept. 30, 2003	Jun. 30, 2003	Mar. 31, 2003
Petroleum and natural gas sales*	12,397	12,252	8,954	8,975	6,922	6,119	6,632	6,471
Net Income	2,748	2,672	754	1,127	889	1,295	1,003	1,460
Net income Per Share								
Basic	0.34	0.33	0.09	0.14	0.11	0.17	0.13	0.19
Fully diluted	0.32	0.31	0.09	0.13	0.10	0.16	0.12	0.18

QUARTERLY OPERATIONAL INFORMATION								
Average Daily Sales								
Natural Gas (mcf/d)	9,720	9,816	7,192	8,278	6,650	5,602	6,291	6,167
Oil (bbls/d)	1,394	1,321	1,036	987	920	901	821	536
NGL (bbls/d)	159	164	108	149	148	120	129	116
Barrels of Oil Equivalent (boe/d)	3,172	3,121	2,343	2,516	2,176	1,954	1,999	1,680
Average Sales Price*								
Natural Gas ($/mcf)	6.85	6.52	7.20	6.68	6.01	5.98	6.82	7.53
Oil ($/bbl)	44.49	48.71	43.70	39.81	33.18	34.05	33.45	41.87
NGL ($/bbl)	51.16	45.24	41.50	35.49	34.22	33.68	32.31	43.04
Barrels of Oil Equivalent ($/boe)	43.09	43.50	43.33	39.69	34.39	32.21	38.22	45.83

* Restated to reflect changes in accounting policy. These changes are detailed in note 2 to the financial statements included herein.

Discussion of significant variances

Petroleum and natural gas sales have increased consistently since the beginning of 2003, increasing dramatically during the third quarter of 2004 as a result of the drilling and completion efforts begun in the second quarter of 2004 and completed in the third quarter. Increases in sales revenue are consistent with increases in daily production.

Net income dropped in the second quarter of 2004 because of an income tax provision of approximately $200,000 related to an assessment received for 2001 and 2002.

FOURTH QUARTER

Zapata's fourth quarter of 2004 was the best quarter it has ever had in terms of gross sales, net income, earnings per share and average daily sales. This quarter continued Zapata's history of improving results quarter-over-quarter. Zapata anticipates that this trend will continue in 2005.

DATE

This MD&A is dated April 25, 2005.

ADDITIONAL INFORMATION

Additional information regarding the Corporation is available on its website at www.zapata.ca and SEDAR at www.sedar.com.

MANAGEMENT'S REPORT

The Management of Zapata Energy Corporation is responsible for the preparation of all information included in these financial statements and Management's Discussion & Analysis. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management maintains appropriate systems of internal control that provide reasonable assurance that transactions are appropriately authorized, assets safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the preparation of financial statements.

Collins Barrow Calgary LLP, an independent firm of chartered accountants, was appointed by the shareholders of the Corporation to audit the consolidated financial statements of the Corporation and provide an independent professional opinion. Their report is presented with the consolidated financial statements.

The Board of Directors, through its Audit Committee, has reviewed the consolidated financial statements including notes thereto with Management and Collins Barrow Calgary LLP. A majority of the Audit Committee is composed of independent directors who are not employees of the Corporation. The Corporation's Board of Directors has approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

George E. Paulus
President and Chief Financial Officer

Lloyd D. Driscoll
Chairman and Chief Executive Officer

April 30, 2005

AUDITORS' REPORT

To the Shareholders
Zapata Energy Corporation

We have audited the consolidated balance sheets of Zapata Energy Corporation as at December 31, 2004 and 2003 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Alberta
February 16, 2005

ZAPATA ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003 (restated see note 2[e])
Assets		
Current assets		
Accounts receivable	$ 7,755,885	$ 4,795,023
Prepaid expenses	239,153	212,088
	7,995,038	5,007,111
Property, plant and equipment (note 4)	69,423,966	48,475,068
	$ 77,419,004	$ 53,482,179
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 14,173,157	$ 11,194,832
Bank debt (note 5)	25,600,000	17,750,000
	39,773,157	28,944,832
Asset retirement obligation (note 6)	3,742,732	2,425,531
Future income taxes (note 7)	9,787,286	6,709,498
	53,303,175	38,079,861
Shareholders' Equity		
Share capital (note 8)	6,343,212	5,728,591
Contributed surplus (note 8[e])	1,361,901	564,498
Retained earnings	16,410,716	9,109,229
	24,115,829	15,402,318
	$ 77,419,004	$ 53,482,179

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors,

Director

Director

ZAPATA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME & RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003 (restated see note 2[e])
Revenue		
Oil and gas sales (note 11)	$ 42,576,563	$ 26,145,027
Royalties net of ARTC	7,444,745	4,641,596
Oil and gas sales, net of royalties and ARTC	35,131,818	$ 21,503,431
Interest, administrative fees and other income	5,196	97,869
	35,137,014	21,601,300
Expenses		
Production	11,272,041	7,300,399
Transportation	1,560,661	1,060,700
General and administrative (note 10)	2,039,848	1,120,018
Interest on bank debt	955,752	656,477
Stock-based compensation (note 8[c])	797,403	404,633
Depletion, depreciation and accretion	7,815,213	5,224,940
	24,440,918	15,767,167
Income before income taxes	10,696,096	5,834,133
Income tax expense (note 7)		
Current	316,821	396,462
Future	3,077,788	790,516
	3,394,609	1,186,978
Net income	7,301,487	4,647,155
Retained earnings, beginning of year, as previously reported	9,109,229	4,567,778
Retroactive change in accounting policies (note 2)	-	(105,704)
Retained earnings, beginning of year, restated	9,109,229	4,462,074
Retained earnings, end of year	$ 16,410,716	$ 9,109,229
Net income per share (note 8[d]) - basic	$ 0.91	$ 0.60
- diluted	$ 0.87	$ 0.57

See accompanying notes to consolidated financial statements.

ZAPATA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

Cash provided by (used for)	2004	2003 (restated see note 2[e])
Operating activities		
Net income	$ 7,301,487	$ 4,647,155
Add items not affecting cash		
Stock-based compensation	797,403	404,633
Depletion, depreciation and accretion	7,815,213	5,224,940
Future income taxes	3,077,788	790,516
Funds from operations	18,991,891	11,067,244
Change in non-cash working capital	(365,699)	(1,558,785)
	18,626,192	9,508,459
Financing activities		
Proceeds on issuance of share capital, net of issue costs	124,621	(1,224)
Proceeds from bank debt	7,850,000	6,750,000
Change in non-cash working capital	-	(200,000)
	7,974,621	6,548,776
Investing activities		
Acquisition of property, plant and equipment	(27,956,910)	(22,449,931)
Site restoration costs	-	(406,305)
Proceeds from disposal of property, plant, and equipment	1,000,000	680,548
Change in non-cash working capital	356,097	6,118,453
	(26,600,813)	(16,057,235)
Cash outflow	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -
Supplemental cash flow information:		
Issuance of share capital for non-cash consideration (note 8[f])	$ 490,000	$ -
Interest paid	$ 955,752	$ 656,477
Current income taxes paid	$ -	$ 348,889

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

The Corporation's business consists of the exploration for and development of oil and gas properties in western Canada.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

(a) Full cost accounting

Effective January 1, 2004, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Accounting guideline 16 "Oil and Gas Accounting - Full Cost." The new guideline modifies the ceiling test calculation and outlines additional disclosure requirements. Under the full cost method of accounting, a limit is placed on the carrying amount of petroleum and natural gas properties. A ceiling test is performed to recognize and measure impairment, if any.

Impairment is recognized if the carrying amount of petroleum and natural gas properties, less the cost of unproved properties not subject to depletion (the "adjusted carrying amount"), exceeds the estimated undiscounted future cash flows from the Corporation's proved reserves. The future cash flows are based on forecast prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is measured by comparing the adjusted carrying amount to the estimated, discounted future cash flows of the Corporation's proved plus probable reserves, based on forecast prices and costs, and discounted at the Corporation's risk-free rate. For purposes of the ceiling test, future cash flows are calculated exclusive of indirect costs such as financing charges, general and administrative expenses, and income taxes. Any recognized impairment is recorded as additional depletion and amortization expense. The adoption of Accounting guideline 16 had no effect on the Corporation's financial results.

The future prices used in the ceiling test are:

Year	Light/medium Oil ($/bbl)	Heavy Oil ($/bbl)	Gas ($/mcf)
2005	46.42	37.22	7.79
2006	42.21	34.53	7.45
2007	36.43	31.01	6.71
2008	32.92	29.81	5.92
2009	31.09	28.32	5.54
2010	31.63	28.85	5.64
Average annual increase thereafter	2.1%	1.5%	1.6%

(b) Asset retirement obligations

Effective January 1, 2004, the Corporation adopted retroactively, with restatement of prior periods, Accounting for Asset Retirement Obligations as prescribed in Section 3110 of the Canadian Institute of Chartered Accountants ("CICA") Handbook. The new standard requires liability recognition for retirement obligations associated with long-lived assets, which would include abandonment of petroleum and natural gas wells, related facilities, compressors and gas plants, removal of equipment from leased acreage and returning such land to its original condition.

Under the new standard, the estimated fair value of each asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Corporation's credit-adjusted risk-free interest rate. The obligation is reviewed regularly by management based upon current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related petroleum and natural gas properties, and a corresponding liability is recognized. The increase in petroleum and natural gas properties is depleted and amortized on the same basis as the remainder of the petroleum and natural gas properties. The liability is accreted against income until it is settled or the property is sold and is included as a component of depletion and amortization expense. Actual restoration expenditures are charged to the accumulated obligation as incurred.

Prior to 2004, the Corporation estimated costs of dismantlement, removal and site restoration, and recorded them over the remaining life of the proved reserves on a unit-of-production basis. The annual provision was included in depletion and depreciation expense and was accrued as a site restoration liability on the balance sheet. Actual restoration expenditures were charged to the accumulated obligation as incurred.

(c) Stock-based compensation

The Corporation has a stock option plan as described in note 8(c).

Effective January 1, 2004, the Corporation elected to retroactively adopt amendments to CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments." Under the amended standard, the Corporation must account for all stock options issued at fair value. Under the transitional provisions of the standard, the Corporation elected to apply the amended standard retroactively, with restatement, to all stock options issued after the effective date of implementation, being January 1, 2002.

Under this method, compensation cost attributable to all share options and warrants granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The contributed surplus balance is reduced as the options and warrants are exercised and the amount initially recorded is credited to share capital.

The Corporation has not incorporated an estimated forfeiture rate for stock options and warrants that will not vest, rather, the Corporation accounts for actual forfeitures as they occur.

(d) Reclassification of transportation costs and royalties

Effective for fiscal years beginning on or after October 1, 2003 CICA Handbook Section 1100 "Generally Accepted Accounting Principles (GAAP)" eliminates industry practice as a source of GAAP. In prior years, it had been industry practice for companies to net transportation charges and royalties against revenue rather than showing them as separate items on the income statement. This practice is now in contravention of Section 1100. Therefore, the Corporation has reported oil and gas sales gross of transportation charges and royalties and reported these items separately on the income statement. Prior periods have been reclassified for comparative purposes. This adjustment has no impact on net income, per share calculations or cash flow for the Corporation.

(e) Effect of change in policies

The effect of the change in policy for asset retirement obligations, stock-based compensation, transportation expense and royalties are as follows:

Balance Sheet

As at December 31, 2003	Previous	Change	As Restated
Assets			
Property Plant and Equipment	$46,444,024	$2,031,044	$48,475,068
Liabilities			
Asset retirement obligation	-	2,425,531	2,425,531
Future removal and site restoration costs	364,483	(364,483)	-
Future income taxes	6,720,000	(10,502)	6,709,498
Shareholders' equity			
Contributed surplus	170,639	393,859	564,498
Retained earnings	9,522,590	(413,361)	9,109,229

Statement of Income and Retained Earnings and Statement of Cash Flows

Year ended December 31, 2003	Previous	Change	As Restated
Revenue			
*Oil and gas sales (not previously reported)	$20,523,359	$5,621,668	$26,145,027
*Royalties net of ARTC (not previously reported)	-	4,641,596	4,641,596
*Oil and gas sales, net of royalties and ARTC	20,523,359	980,072	21,503,431
Expenses			
*Production	7,381,027	(80,628)	7,300,399
*Transportation	-	1,060,700	1,060,700
Stock-based compensation	92,374	312,259	404,633
Depletion, depreciation and accretion	5,229,542	(4,602)	5,224,940
Net income	4,954,812	(307,657)	4,647,155

* Reclassification entries having no effect on per share calculations, net income or cash flow.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations. Such estimates and approximations have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiary, 771129 Alberta Ltd. ("771129") and Zapata Limited Partnership which is wholly owned by the Corporation and 771129.

(b) Property, plant and equipment

(i) Oil and gas properties

The Corporation follows the full cost method of accounting whereby all costs related to the exploration for and the development of oil and gas reserves are initially capitalized into a single Canadian cost centre. Costs capitalized include land acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities, and lease and well equipment. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would alter the rate of depletion and depreciation by more than 20%.

Costs capitalized are depleted and depreciated using the unit-of-production method based on estimated gross proved petroleum and natural gas reserves as determined by independent engineers. For purposes of the calculation, petroleum and gas reserves are converted to a common unit of measure on the basis of their relative energy content where one barrel of oil or liquids equals six thousand cubic feet of gas. In determining its depletion base, the Corporation includes estimated future capital costs to be incurred in developing proved reserves and excludes the cost of significant unproved properties until it is determined whether proved reserves are attributable to the unproved properties or impairment has occurred.

(ii) Depreciation

Other assets are depreciated using the declining balance method at annual rates of 20% to 100%.

(c) Joint Venture Accounting

Substantially all of the Corporation's exploration and production activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

(d) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and substantially enacted rates that are anticipated to apply in the period of realization.

(e) Flow-through shares

The Corporation, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital is reduced and a future tax liability is recorded equal to the estimated amount of future income taxes payable by the Corporation as a result of the renunciations, when the expenditures are incurred. For all flow through share issuances initiated after March 19, 2004, the income tax effect of expenditures is recognized when the expenditure is renounced.

(f) Risk management

The Corporation enters into forward contracts and swap agreements to hedge its exposure to the risks associated with fluctuating oil and gas prices. The purpose of the hedge is to lock in the price, or range of prices, for a portion of the Corporation's production. Gains and losses associated with risk management activities are recorded as adjustments to the oil and gas sales at the time the related production is sold.

The Corporation identifies all relationships between the hedging instruments and hedged production, as well as its risk management objective and strategy for undertaking various risk management transactions. The Corporation believes that the risk management activities are effective hedges, both at inception and over the term of the contracts. The contracts entered into are not speculative derivative transactions.

(g) Revenue recognition

Revenue from the sale of oil and gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(h) Measurement uncertainty

The amounts recorded for depletion and depreciation of oil and gas properties, the asset retirement obligation and the assumptions used to perform the ceiling test are based on estimates of proved reserves, production rates, oil and gas prices, future development costs and other relevant assumptions.

The amounts disclosed relating to the fair value of stock options issued are based on estimates of the future volatility of the Corporation's share price, expected lives of the options, expected dividends and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty, and the effect of changes in such estimates on the consolidated financial statements of future periods could be significant.

4. PROPERTY, PLANT AND EQUIPMENT

	2004			2003		
	Accumulated Cose	Amortization	Net Book Value	Accumulated Cost	Amortization	Net Book Value
Oil and gas properties and equipment	$ 87,435,558	$ 18,041,651	$ 69,393,907	$ 58,941,914	$ 10,479,482	$ 48,462,432
Other	93,012	62,953	30,059	58,567	45,931	12,636
	$ 87,528,570	$ 18,104,604	$ 69,423,966	$ 59,000,481	$ 10,525,413	$ 48,475,068

During the year, the Corporation capitalized $35,389 (2003 - $82,471) of a total of $1,237,878 (2003 - $1,202,489) in general and administrative expenses.

Undeveloped properties not subject to depletion amount to $3,165,469 (2003 - $2,823,251).

5. BANK DEBT

At December 31, 2004, the Corporation has the following credit facilities:

(a) A revolving demand loan to a maximum of $30,000,000 (2003 - $22,000,000) of which $25,600,000 (2003 - $17,750,000) was drawn. Required repayments are interest only and the interest rate on the facility is prime plus ¼% per annum.

(b) A non-revolving acquisition demand loan to a maximum of $10,000,000 (2003 - $5,000,000) to assist in financing the acquisition of oil and gas reserves. This facility has not been drawn on as at December 31, 2004. The interest rate on the facility is prime plus ¾% per annum. Monthly repayments must be made over the half life of the reserves acquired and commence the month following draw-down of the facility.

The facilities are secured by a general assignment of book debts, a $75,000,000 debenture with a floating charge over all assets of the Corporation with a negative pledge and undertaking to provide fixed charges on the major producing oil and gas properties at the request of the bank. Under the terms of the agreement, the Corporation is required to meet certain financial and engineering reporting requirements.

6. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated by management based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon said wells and facilities and the estimated timing of such abandonment. The Corporation has estimated the total undiscounted amount required to settle the abandonment obligations to be $8,185,366 (2003 - $7,246,253). These payments are expected to be made over the next 2 to 50 years. The Corporation used a credit adjusted risk free rate of 6.71% to calculate the present value of the asset retirement obligation.

The changes to the asset retirement obligations for each of the following periods are:

	Year Ended December 31, 2004	Year Ended December 31, 2003
Asset retirement obligation, beginning of year	$ 2,425,531	$ 919,007
Liabilities incurred	1,081,178	1,443,204
Accretion expense	236,023	63,320
Asset retirement obligation, end of year	$ 3,742,732	$ 2,425,531

7. INCOME TAXES

(a) Significant components of the future income tax liability are as follows:

	2004	2003
Carrying value of property, plant and equipment in excess of available tax deductions	$ 7,925,000	$ 6,926,498
Deferred partnership income	3,190,000	-
Asset retirement obligation	(1,243,000)	(119,000)
Share issuance and financing costs	(72,000)	(86,000)
Other	(12,714)	(12,000)
	$ 9,787,286	$ 6,709,498

(b) Income tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial corporate tax rates of 38.62% (2003 – 40.62%) to income before income taxes as follows:

	2004	2003
Expected income tax provision	$ 4,138,000	$ 2,494,796
Increase (decrease) resulting from:		
Non-deductible crown payments net of Alberta Royalty Tax credits	1,325,000	1,158,815
Resource allowance	(1,601,000)	(1,229,726)
Reduction in tax rate	(1,104,000)	(1,284,040)
Non-deductible stock-based compensation costs	308,000	37,522
Other	11,788	9,611
Current income tax expense	3,077,788	1,186,978
Income tax expense of prior periods	316,821	-
	$ 3,394,609	$ 1,186,978

(c) The Corporation has estimated tax pools totaling $46,370,000 (2003 - $27,337,000), as follows:

	Rate of claim	2004	2003
Canadian exploration expense	100%	$ 8,960,000	$ -
Canadian development expense	30%	6,200,000	4,526,000
Canadian oil and gas property expense	10%	12,270,000	12,529,000
Undepreciated capital cost	25%	18,640,000	9,942,000
Undeducted share issuance costs, provincial tax pools and other	various	300,000	340,000
		$ 46,370,000	$ 27,337,000

8. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares
Unlimited number of preferred shares, issuable in series

(b) Issued

	2004		2003	
	Number	Stated Value	Number	Stated Value
Balance, beginning of year	7,755,756	$ 5,728,591	7,755,756	$ 5,940,416
Issued on exercise of stock options (note 8[c])	212,166	124,621	-	-
Issued on acquisition of property (note 8[f])	70,000	490,000	-	-
	8,037,922	6,343,212	7,755,756	5,940,416
Less:				
Tax benefits renounced to flow-through shareholders				(211,117)
Share issuance costs, net of tax benefit				(708)
Balance, end of year		$ 6,343,212		$ 5,728,591

(c) Stock Options

The Corporation has established a Stock Option Plan for the benefit of the directors, officers, employees and consultants of the Corporation. The aggregate number of shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued shares of the Corporation at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of the outstanding common shares of the Corporation at the time of granting. Options granted under the plan have a five-year term and have vesting periods as determined by the Corporation's directors at the date of grant. The exercise price of each option equals the market price of the Corporation's shares at the date of grant.

A summary of the status of the Corporation's stock option plan as at December 31, 2004 and 2003 and changes during the years ended is as follows:

	2004		2003	
	Number of Options	Weighted Average Number of Exercise Price	Number of Options	Weighted Average Number of Exercise Price
Outstanding, beginning of year	773,500	$ 2.97	438,500	$ 1.37
Granted	67,000	9.07	335,000	5.08
Exercised	(212,166)	0.59		
Expired	(3,334)	6.00	-	-
Options outstanding, end of year	625,000	$ 4.42	773,500	$ 2.97
Options exercisable, end of year	470,333	$ 3.83	500,000	$ 2.12

The following table summarizes information about stock options outstanding and exercisable at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$1.05	20,000	0.47	$ 1.05	20,000	$ 1.05
$2.05 - 2.70	238,000	2.67	2.29	228,000	2.27
$4.50	140,000	3.44	4.50	93,333	4.50
$6.00	160,000	3.98	6.00	106,667	6.00
$7.65	52,000	4.16	7.65	17,333	7.65
$14.00	15,000	4.74	14.00	5,000	14.00
	625,000		$ 4.42	470,333	$ 3.83

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.
The fair value of options granted under the Corporation's stock-based compensation plan was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2004	2003
Option life	5 years	5 years
Expected volatility	53%	55%
Risk-free interest rate	3.6%	3.7%
Dividend yield per share	-	-
Grant date fair value per option	$4.53	$2.87

(d) Income per share

Diluted income per share has been calculated using the Treasury Stock Method, whereby it is assumed that proceeds on the exercise of stock options are used by the Corporation to repurchase Corporation shares at the average market price during the year of $11.28 (2003 - $4.89).

A reconciliation of the denominators for the per share calculations using the Treasury Stock Method is as follows:

	2004	2003
Basic weighted average shares	8,003,047	7,755,756
Effect of dilutive stock options	411,135	333,866
Diluted weighted average shares	8,414,182	8,089,622

There is no change to the numerator in the calculation of diluted income per share for either of the years.
At December 31, 2004 15,000 stock options with an exercise price of $14.00 (2003 - 165,000 stock options with an exercise price of $6.00) were not included in the calculation of diluted income per share as the effect would have been anti-dilutive.

(e) Contributed Surplus

		2004		2003
Opening contributed surplus	$	564,498	$	78,265
Issuance of Stock Options		797,403		486,233
Ending Contributed Surplus	$	1,361,901	$	564,498

(f) Acquisition of Property

On January 20, 2004 the Corporation closed a purchase and sale agreement to acquire certain oil and gas properties for $800,000 including cash and non-cash consideration. The value of non-cash consideration represented 70,000 common shares issued at $7.00 per common share, the prevailing market price at the time of the closing of the acquisition.

9. FINANCIAL INSTRUMENTS

(a) Fair values

The fair values of accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the short-term maturity of these financial instruments.
The fair value of bank debt approximates its carrying value as it bears interest at a variable rate.

(b) Credit risk

Virtually all of the Corporation's accounts receivable are with companies in the petroleum and natural gas industry in Canada and are subject to normal industry credit risks. The Corporation generally extends unsecured credit to these companies and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Corporation has not experienced any credit loss in the collection of accounts receivable to date.
The Corporation's maximum credit risk exposure is limited to the carrying fair value of its accounts receivable.

(c) Commodity price risk

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems necessary.

(d) Interest Rate Risk

The Corporation's borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

10. RELATED PARTY TRANSACTIONS

Management fees of $108,333 (2003 - $300,000) were paid to companies controlled by officers and directors of the Corporation and are included in general and administrative expenses of which none remain in accounts payable.
These transactions are measured at the exchange amount, which is the amount of consideration established, agreed to and paid by the related parties.

11. COMMITMENTS

(a) Operating commitments

Under contracts existing at December 31, 2004 future minimum amounts payable under non-cancelable operating leases for office space and equipment as well as pipeline transportation agreements are as follows:

2005	$ 591,322
2006	288,590
2007	281,390
2008	263,979
2009	83,844
	$ 1,509,125

(b) Commodity marketing arrangements

From time to time, the Corporation enters into gas sales contracts, in the form of forward financial transactions, providing the Corporation with a fixed price on gas sales. Net oil and gas sales for the year ended December 31, 2004 include losses of $816,896 (2003 – gains of $11,804). At December 31, 2004 the Corporation had no outstanding hedge transactions or forward financial contracts.

Subsequent to year end the Corporation entered into forward financial contracts for oil and gas sales. These forward contracts provide the Corporation with a minimum floor price and a maximum ceiling price, as follows:

Commodity	Notional Volume	Floor Price	Ceiling Price	Terms
Gas*	2000 GJ/day	$ 7.225 CAD	$ 7.225 CAD	July 1, 2005 – Sept. 30, 2005
Oil**	200 BBL/day	$ 53.00 US	$ 61.00 US	May 1, 2005 – July 31, 2005

* Production volume above this fixed price contract will receive daily index pricing.

** If WTI declines below $47.50 US per BBL, the Corporation will not receive the above floor price, but will receive the actual WTI price plus a $5.50 US per BBL premium.

12. SUBSEQUENT EVENTS

On January 12, 2005 Zapata Energy Corporation announced that it had completed a strategic review of both its producing and non-producing properties and prospects to determine the best path for the Corporation. As a result of the review, first announced on Sept. 14, 2004, the directors determined the best course of action for shareholders was to undertake a broadbased marketing of the Corporation for a possible sale or business combination. The Corporation engaged Kobayashi Partners Limited to manage the marketing process. As at the date of publication of these financial statements, the above process is ongoing.

FIVE YEAR HISTORICAL SUMMARY

(Thousands except where noted)	2004	2003*	2002	2001	2000
FINANCIAL					
Gross revenue	**42,577**	**26,145**	10,682	7,886	6,568
Cash flow from operations	18,992	**11,067**	4,044	4,801	3,723
Per share - basic	**2.37**	**1.43**	0.54	0.88	0.90
Net income	**7,301**	**4,647**	943	1,985	1,758
Per share - basic	**0.91**	**0.60**	0.13	0.36	0.42
Netback per boe	21.84	**18.48**	13.57	23.60	23.09
Capital expenditures	**27,957**	**22,450**	13,180	9,121	5,735
Total assets	**77,419**	**53,482**	32,647	19,137	10,576
Bank debt	**25,600**	**17,750**	11,000	-	600
Shareholders' equity	**24,115**	**15,402**	10,586	9,901	3,761
Common shares outstanding					
Weighted average - basic	**8,003**	**7,756**	7,504	5,467	4,150
Share trading price (closing) Dec.31	**15.00**	**6.75**	2.58	3.50	1.50
Year-end market capitalization	**120,569**	**52,447**	20,010	19,135	6,225
Net asset value per share (at 10% discount)	**18.27**	**20.29**	7.49	4.45	4.07
Return on equity (Net income/Shareholders' equity)	**30%**	**30%**	9%	20%	47%
OPERATIONS					
Production					
Natural gas (mcf/d)	**8,757**	**6,160**	4,753	3,037	2,838
Oil (bbls/d)	**1,185**	**794**	204	29	19
NGL (bbls/d)	**145**	**128**	100	57	43
BOE (boe/d 6:1)	**2,790**	**1,948**	1,096	592	535
Reserves					
Natural Gas (mmcf)					
Proved	25,995	**26,306**	20,441	11,900	7,363
Proved plus probable (Established prior to 2003)	**40,781**	**42,877**	24,589	15,314	8,943
Oil (mmbls)					
Proved	**2,853**	**2,011**	1,811	78	77
Proved plus probable (Established prior to 2003)	**4,357**	**2,767**	1,996	101	81
NGL (mmbls)					
Proved	**371**	**478**	371	300	219
Proved plus probable (Established prior to 2003)	**567**	**824**	475	387	260
Oil Equivalent (mboe 6:1)					
Proved	**7,549**	**6,873**	5,589	2,361	1,523
Proved plus probable (Established prior to 2003)	**11,721**	**10,738**	6,569	3,040	1,832
Drilling Activity (net wells)	**28.7**	**26.7**	2.6	11.2	7.4
Undeveloped Land Holdings (net hectares)	**32,380**	**36,899**	24,789	13,071	8,841

* 2003 results have been restated to reflect retroactive application of changes in accounting policy

CORPORATE INFORMATION

BOARD OF DIRECTORS

Lloyd Driscoll
Chairman & CEO,
Zapata Energy Corporation

George Paulus
President & CFO,
Zapata Energy Corporation

Robert Brawn
Chairman Emeritus & Director,
Acclaim Energy Trust

Allen Emes
Investment Banker
Woodstone Capital

LEGAL COUNSEL

Blake, Cassels & Graydon LLP
Calgary, Alberta

AUDITORS

Collins Barrow LLP
Calgary, Alberta

BANK

National Bank of Canada
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta

STOCK EXCHANGE

TSX Venture Exchange
Symbol : ZCO

CORPORATE OFFICE

Suite 500,
435 - 4th Avenue SW
Calgary, Alberta
Canada T2P 3A8
tel. (403) 261-7355
fax (403) 294-7877

e-mail : invest@zapata.ca

WEBSITE

www.zapata.ca

Designed and produced by Iradesso Communications